EXPORT-IMPORT BANK OF THE UNITED STATES

REPORT TO THE U.S. CONGRESS ON EXPORT CREDIT COMPETITION AND THE EXPORT-IMPORT BANK OF THE UNITED STATES

FOR THE PERIOD
JANUARY 1, 2004 THROUGH DECEMBER 31, 2004

JUNE 2005

PHILIP MERRILL
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

June 30, 2005

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman Shelby and Chairman Oxley:

Pursuant to Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to submit the Bank's Competitiveness Report for January 1, 2004, through December 31, 2004.

Sincerely

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THE 2005 ADVISORY COMMITTEE'S STATEMENT ON THE 2004 COMPETITIVENESS REPORT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

The members of the 2005 Advisory Committee have reviewed the 2004 Competitiveness Report to Congress and present its statement on the competitiveness of the Export-Import Bank of the U.S. as compared with the G-7 major export credit agencies (ECAs). In the Advisory Committee's opinion, Ex-Im Bank fulfills its objective of providing competitive export financing support.

With specific regard to the Report structure, methodology and approach, the Advisory Committee believes that the Report has accurately identified and usefully differentiated the central elements of export credit competition ranging from core financial policies and practices, major program structures, philosophy and competitiveness, and public policy issues. In addition, the Committee also continues to support the "report card" approach that combines the survey and focus group results as well as the grading methodology. The Committee suggests that Ex-Im Bank engage senior level personnel in one-on-one consultations from the potential survey respondents as one way of achieving a statistically valid response rate and improving the quality of the Exporter and Lender Survey.

With regard to the findings of the Report, the Advisory Committee concurs with the overall assessment that Ex-Im Bank turned in a "generally competitive" performance in 2004. The Committee, expressing a consensus view, agrees with the characterization of the international marketplace that reflects an increased demand brought about largely by the emerging markets, and in particular the trends in the export credit field that includes alternative sources of financing. In addition, the assessments offered in the individual areas also reflect the majority of the Committee's understanding as to Ex-Im Bank's competitiveness. In this regard, the Committee especially notes the double warning contained in the Executive Summary: G-7 competitors are steadily closing the gap in areas where Ex-Im Bank has historically had an edge – general financial aspects such as cover policy and risk taking, while the differences in operating philosophies and public policies between Ex-Im Bank and its foreign ECA counterparts are increasing.

Within this context, the Committee strongly encourages Ex-Im Bank to: (1) seize every opportunity to maximize its competitiveness in the areas that are within the Bank's control (e.g., cover policy/risk taking, the co-financing and foreign currency guarantee programs, and renewable energy support); (2) keep an ever-watchful "eye" on tied aid and market windows as they are not likely to be as rare as they may appear to be so that Ex-Im Bank can respond in kind to level the playing field; (3) align with the private sector with other relevant U.S. government agencies to achieve greater awareness of Ex-Im Bank programs and, (4) be as transparent, efficient, and effective as possible in improving the case processing turn-around time as well as when it addresses and implements the policies and processes associated with its overarching philosophy and public policy goals.

Additionally, the Committee would also like to note that Ex-Im Bank has done a good job in balancing the core financial attributes, the non-financial factors (e.g., foreign content, economic impact, PR 17) and the broader public policy considerations, to maximize support for U.S. employment. Further, while the Committee notes that support for SMEs (Small and Medium sized Enterprises) is not specifically covered in this Report, it would nevertheless like to recognize that the trend in SME transactions has steadily improved over the past three years in both the number of transactions and in the authorized amounts. Ex-Im Bank should be commended for its commitment to small business and its outstanding performance for improvements in both of these critical aspects.

Finally, the Committee applauds the Bank in taking the initiative to identify the need for, and in conducting a review of, the emerging market ECAs of China, Brazil and India. Accordingly, the Committee would fully support an ongoing study of these ECAs, given their growing importance and potentially adverse effect on the competitiveness of U.S. exports.

To conclude, Ex-Im Bank faces many challenges in its efforts to support competitive financing for U.S. exports and U.S. jobs. The Bank's role in this regard is evermore critical as the "face" of the international marketplace is changing at break-neck speed with many more players seeking to achieve competitive advantage, many of whom may not be playing by the rules. Consequently, Ex-Im Bank needs to be extremely vigilant in its understanding of the market, its players, practices, and policies, and needs to make *every* effort to effectively and efficiently remain competitive to fulfill its overall mission.

SJ Canton

Stephen G. Canton
Chairman
2005 Ex-Im Bank Advisory Committee

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Executive Summary

The 2004 Competitiveness Report provides a comprehensive evaluation of competitiveness of the Export-Import Bank of the United States (Ex-Im Bank) as it relates to the medium- and long-term programs during calendar year 2004. This assessment is based on qualitative information gathered from a variety of sources, including a survey of, and focus group discussions with, exporters and lenders. The assessment also uses quantitative information from sources such as the Organization for Economic Cooperation and Development (OECD), the G-7 export credit agencies (ECAs), and selected non-OECD export credit agencies.

The conclusions of this year's report are presented within the framework of major trends in the international marketplace during 2004 and the net effect of these influences on Ex-Im Bank activity and competitiveness during this period. In addition, an added feature of this year's report is a first-step picture of what will be an ongoing effort to identify and better understand the strategies and programs of the official export credit agencies of three non-OECD countries -- China, Brazil and India. This initiative was undertaken due in large part to the growing competitive implications for Ex-Im Bank vis-à-vis the official export credit programs of these emerging markets.

The major trends identified during 2004 were:

- The aggregate medium- and long-term activity levels of the G-7 ECAs moved higher, tracking the overall increase in demand for capital goods and services worldwide during the year. While not necessarily a trend, the G-7 ECA's collective support represents an increase in the share of national exports supported during 2004 following a similarly slight increase in 2003.

- The increase in activity is largely the result of emerging markets' needs and desires to upgrade old and create new infrastructure to support their rapidly expanding economies, a significant portion of which is attributed to export growth. The emerging markets most commonly identified in this regard include China, Brazil, India, Russia, and the economies of Eastern Europe/former Commonwealth of Independent States (CIS).

- A number of these emerging markets are also becoming significant providers of official export credit financing, in addition to being countries in which there are entities who have been recipients of ECA financing.

- New strategies are emerging among the G-7 and other ECAs, as the ECA world continues to react to new parameters of the World Trade Organization (WTO) and changing capabilities and activities of other sources of export finance.

In sum, as demand returns from the 2001-2002 global economic slowdown, the definition of competitiveness continues to change as the environment and players change more and faster than at any time in the last quarter century.

Core Business Policies and Practices

Overall, Ex-Im Bank is at the high end of generally competitive with the typical offer in the core business policies and practices of other G-7 ECAs. In particular, Ex-Im Bank's 100% unconditional guarantee continues to be a financing mechanism that equals or exceeds the competitiveness of any other G-7 ECA financing tool. Moreover, Ex-Im Bank still has the fewest institutional constraints (e.g., portfolio limits) on risk taking and is considered by the export community to be a leader in actually taking medium- and long-term export credit risk in emerging markets. (However, other ECAs are narrowing the gap – with one or two countries creating their own leading niches---by expanding their sovereign risk capacity and increasing their willingness to accept non-sovereign risks). Also, Ex-Im Bank's exposure fees (risk premia) are among the lowest when compared with our foreign counterparts.

Comparison of Major Program Structures

Ex-Im Bank's project finance program continued to receive the highest ratings while the Bank's co-financing program was perceived as lagging its European counterparts. The other half of the major programs – both the "hard" and soft" windows of the foreign currency program and the aircraft program – are considered generally competitive in comparison to other G-7 ECA programs.

Economic Philosophy and Competitiveness

Notwithstanding the fact that the OECD Arrangement has been very effective in minimizing the potential trade distorting effects of government involvement in the export credit arena, there continue to be areas where the use of official financing tools currently outside the scope of the Arrangement can tilt the playing field. These tools -- such as untied aid and market windows – can be used to exploit public policy niches that are antithetical to the U.S. export credit philosophy. Moderate progress within the OECD to address untied aid through greater transparency was achieved in late 2004. Progress regarding market windows continues to wait for the EU-mandated restructuring of Germany's banking sector, due to be completed by the end of 2006, which is intended to link its market window operations to the market.

Public Policies: Stakeholder Considerations

As noted by the exporting community, the ability of the Bank to be fully competitive with our G-7 counterparts on transactions in which certain public policy issues are present is hampered because our ECA counterparts have no similar constraints. For example, Ex-Im Bank is the only ECA to have economic impact and shipping policies requirements. In addition, while there are content guidelines for all of the other G-7 ECAs, they are able to exert increasing flexibility in their application. Consequently, the U.S. exporting community views the public policy requirements as disadvantageous when they arise.

Overall

Consistent with the approach adopted in 2002 and repeated in 2003, the 2004 Competitiveness Report presents the summary of Ex-Im Bank's ability to offer comparable financing in a report card format. On a grading scale from "A+" to "F", with "A" being generally competitive, Ex-Im Bank's overall export credit program receives an "A", which translates into being generally competitive with the typical G-7 ECA offering. (See **Figure 1**, below, for the competitive definitions of select grades.) However, the two parts of the total grade (core business policies is one and public policy/philosophy is the other) are both under increasing competitive pressures. For the past decade or so, Ex-Im Bank has been: (a) at or near the lead in terms of the basic financial package (cover policy, interest rates, fees, term, etc.) it could regularly provide to exporters; and (b) slightly below average in how often U.S. public policy affected export finance offers. By 2004, clear indications have emerged that the other ECAs are steadily closing or eliminating differences in the areas where Ex-Im Bank has historically had a competitive advantage (core business practices and major programs). In addition, as the business practices of G-7 ECAs evolve in response to the changes in their customer base and regulatory framework, it appears increasingly important to evaluate each incremental change with respect to the hypothesis that there may be declining agreement on the guiding philosophies and goals of Ex-Im Bank and the "average" of G-7 ECAs. The emergence of new and major ECAs appear to further exacerbate both tracks.

Figure 1: Definition of Grades

Grade	Definition
A+	Fully competitive compared to other ECAs. Consistently equal to the (or is the sole) ECA offering the **most competitive** position on this element. Levels the playing field on this element with the most competitive offer from any of the major ECAs.
A	Generally competitive compared to other ECAs. Consistently offers terms on this element **equal to the average** terms of the typical major ECA. Levels the playing field on this element with the typical offer from the major ECAs.
A-/B+	Level of competitiveness is in between grades A and B.
B	Modestly competitive compared to other ECAs. Consistently offers terms on this element **equal to the least** competitive of the major ECAs. Does not quite level the playing field on this element with most of the major ECAs.
B-/C+	Level of competitiveness is in between grades B and C.
C	Barely competitive compared to other ECAs. Consistently offers terms on this element that are a **notch below** those offered by any of the major ECAs. Puts exporter at financing disadvantage on this element that may, to a certain extent, be compensated for in other elements or by exporter concessions.
D	Uncompetitive compared to other ECAs. Consistently offers terms on this element that are **far below** those offered by other major ECAs. Puts exporter at financing disadvantage on this element so significant that it is difficult to compensate for and may be enough to lose a deal.
F	Does not provide program (Note: The Exporter and Lender Survey included a grade of "F" in the event no Ex-Im Bank program was available.)
NA	Does not have experience with policy/program.

Chapter 1: Introduction

Background

Pursuant to its Charter (the Export Import Bank Act of 1945, as amended), Ex-Im Bank is mandated to provide U.S. exporters with financing terms and conditions that are competitive with those made available by foreign governments to their exporters. The purpose of this report, which is required by Section 2(b)(1)(A) of the Charter, is to measure the effectiveness of Ex-Im Bank's programs and policies in meeting the competitiveness mandate during calendar year 2004.

Scope

This report compares Ex-Im Bank's competitiveness with that of the other G-7 ECAs, as these ECAs historically have accounted for roughly 80% of medium- and long-term official export finance. In addition, the Competitiveness Report focuses on medium- and long-term export credits, which comprise the bulk of official export finance and therefore are subject to the most intense international competition. Moreover, Ex-Im Bank is one of only a few official ECAs that continue to provide short-term financing. Quantitative comparisons and information on each of G-7 ECAs can be found in **Chapter 2**.

Methodology

Using the "report card" methodology that was introduced in 2002, this year's Competitiveness Report provides a grade for the competitiveness of Ex-Im Bank support. The intention of this approach is to individually evaluate the essential components of an Ex-Im Bank financial program and to compare these results with the capabilities of our foreign ECA competitors.

The survey of exporters and lenders provides respondents the opportunity to evaluate Ex-Im Bank's competitiveness on individual program factors and public policy issues as they relate to our G-7 ECA counterparts (see below for information on the survey). However, because the economic philosophy and public policy issues do not affect every case – and because not all of them can be evaluated on a comparable basis with other ECA policies – the Report only notes the direction of the potential competitiveness impact on an individual transaction when one or more of these factors is rated noticeably different than our ECA counterparts.

Consistent with previous years' Competitiveness Reports, the Bank's analysis and competitiveness grades draw upon: 1) objective policy, programmatic and procedural information about other ECAs obtained from a variety of sources; and 2) subjective information provided by the survey of the U.S. exporting community and focus group discussions with exporters and lenders.

Survey Methodology

The Bank is required by its Charter to conduct an annual survey of exporters and lenders to determine their experience in competition supported by official export finance. Ex-Im Bank revised its survey in 2003 to mirror the grading methodology adopted in the 2002 Competitiveness Report. This provided survey recipients the opportunity to provide an assessment of Ex-Im Bank's competitiveness in different financing programs by selecting defined grades from A+ (fully competitive) to F (does not provide program). In addition, survey recipients were asked to note whether certain public policies had a positive or negative impact on the Bank's competitiveness. After each section, recipients had space to provide qualitative comments on each of their responses. Finally, for the second year, the Bank expanded its distribution mechanism by sending the survey to recipients over the Internet with the capability of respondents to complete and return the survey in the same manner. Recipients could also complete and return the survey either by mail or facsimile if the Internet option was not available or desirable. By using the Internet distribution, Ex-Im Bank tried to reach a greater number of Bank customers as respondents to the survey with the explicit intent of gathering a broader and more representative population of Bank customers.

Ex-Im Bank conducted a careful process to evaluate the quality of each survey response. Some specific responses were discarded if a respondent graded a program with which it clearly had no – and was not trying to get -- experience (the large aircraft and project finance questions were the areas where this most frequently occurred). Additional responses were discarded if they were based on something other than a comparison of Ex-Im Bank's medium- and long-term programs with those of other ECAs. **Appendix C** provides more information on the survey.

Focus Groups

In addition to the annual survey of the export community, this year's report also incorporates the results from two focus group discussions – one with commercial lenders and another with exporters. The focus groups provided a venue for members of the export community to supplement their survey responses with anecdotal experience, as well as more comprehensive information on market trends. The results of these discussions are included in the "exporter and lender survey results" section of each chapter.

Special Analysis: Emerging Market ECAs

Prompted by a consistent and continuous "message" from the market regarding the growing presence of certain emerging market ECAs, Ex-Im Bank has undertaken a first step evaluation of the official export credit agencies of China, Brazil and India. The purpose of this report (which is contained in **Appendix F**) is to convey the information Ex-Im Bank has gathered thus far regarding the three countries' ECAs strategies and philosophies, the specific programs they offer along with data where available, and finally to identify the key competitive implications for U.S. Ex-Im Bank.

Report

The Report proceeds as follows: **Chapter 2** describes the international framework within which official ECAs operated in 2004 and the philosophies and missions of competing G-7 ECAs. **Chapter 3** consists of separate sections evaluating Ex-Im Bank's competitiveness in the core financing elements of official export credit support. **Chapter 4** provides a comparative assessment of how well the financing elements are packaged into major programs (i.e., aircraft, project finance, co-financing and the foreign currency guarantee). **Chapter 5** addresses U.S. economic philosophy and competitiveness regarding tied and untied aid and market windows. Finally, **Chapter 6** evaluates stakeholder considerations embodied in public policies and the long-term competitive implications of these policies on Ex-Im Bank activity. The main body of the Report concludes in **Chapter 7** with an overall competitiveness report card grading Ex-Im Bank against its G-7 ECA counterparts. The appendices follow the body of the Report, and include a list of the purposes for Ex-Im Bank support, a summary of developments within the OECD, Ex-Im Bank efforts to support renewable energy, and other materials intended to provide greater detail and insights.

Chapter 2: Competitiveness Framework
Section A: Factors Influencing Export Finance

Introduction

Export Credit Agencies (ECAs) operate in a dynamic environment. This chapter describes the international framework and developing trends in export finance in which official ECAs work. In particular, the multilateral "rules of engagement" governing official ECA activity, market trends, and alternative financing sources together impact how ECAs support their respective exporting communities.

Changing Landscape of Export Finance

The year 2004 was marked most notably by heightened interest in export credits by the WTO and International Monetary Fund (IMF), increased pressure on ECAs to factor in corporate governance issues, and unanswered questions regarding the potential impact on the export finance industry in general by the emerging Basel II regulations. These multifaceted factors have clearly defined a new framework for ECAs, as well as raised questions as to the direction of (and roles for) ECAs in the future. As these factors exerted their influences over the course of the year, ECAs have begun to show signs of revised strategies. This chapter describes the key trends that have emerged and that are likely to shape the future environment in which ECAs will be operating.

International

Figure 2: World Exports of Goods and Capital Goods ($Bn)

	1999	2000	2001	2002	2003	2004
Exports of Goods						
World	$5,707	$6,447	$6,186	$6,481	$7,546	$9,124
OECD	$3,942	$4,264	$4,104	$4,245	$4,885	$5,766
Rest of World	$1,765	$2,183	$2,082	$2,236	$2,661	$3,358
Exports of Capital Goods						
World	$2,350	$2,626	$2,474	$2,560	$2,894	NA
OECD	$1,857	$2,015	$1,896	$1,919	$2,147	NA
Rest of World	$ 493	$611	$578	$641	$747	NA
OECD Exports as % of World Exports						
Goods	69%	66%	66%	65%	65%	63%
Capital Goods	79%	77%	77%	75%	74%	NA

Source: WTO On-line Statistics Database

As illustrated in **Figure 2** above, over the past four years the "Rest of the World" has been providing an increasing share of goods (and capital goods) exports to the world. While in 1999 the

OECD members accounted for 69% and 79% of world exports of goods and capital goods, respectively, by 2003 the OECD members accounted for 65% and 75% of world exports of goods and capital goods. That is an average increase in the "Rest of the World's" share of total exports and capital goods exports of 1% per year. The information available on export flows in 2004 indicate that this trend continues in 2004, and at this rate the OECD countries will be providing less than 50% of world exports by 2020.

Driving this aggressive growth pattern seen for exports by non-OECD countries is the surging prominence of emerging markets. Large emerging markets such as China, Brazil and India are becoming suppliers of capital equipment. China is an excellent example of a maturing economy that is becoming a competitor to developed economies for capital equipment exports to developing economies. With the growth of the industrial base of these economies is also coming the growth of ECAs from these countries. (See **Appendix F** for more information on the rise of China, Brazil and India as major players in exports and export finance.)

Export Financing Trends

Figure 3 shows that 2003's rebound of increasing official export credit volumes by the G-7 continued in 2004, a reflection of the general global increase in demand for goods and services. Official export financing is most prevalent in emerging markets with products or borrowers that need repayment terms of at least 2 years or more. In 1999 G-7 ECAs financed 2.8% of their countries' exports of capital goods. By 2003 the same ECAs financed 3.0% of their capital goods exports.

Figure 3: G-7 New Medium- and Long-Term Official Export Credit Volumes ($Bn)

	1999	2000	2001	2002	2003	2004*
Canada	$3.7	$4.7	$11.1	$10.1	$9.5	$10.0
France	$5.5	$4.5	$6.1	$5.3	$5.1	$5.4
Germany	$6.7	$10.3	$5.7	$5.9	$5.7	$9.6
Italy	$1.6	$3.3	$1.9	$1.8	$3.6	$5.4
Japan	$8.1	$10.8	$9.2	$5.7	$11.5	$10.8
U.K.	$5.2	$5.8	$3.1	$4.7	$3.7	$3.0
U.S.	$9.4	$9.6	$6.8	$7.7	$8.6	$8.5
Total G-7	$40.1	$49.1	$43.9	$41.2	$47.7	$52.7
U.S. % G-7	23.4%	19.6%	15.1%	18.7%	18.0%	16.1%

Source: 1999 through 2003, OECD Statistics on Export Credit Activity. 2004, *Estimated from publicly available sources.

ECA activity trends are greatly influenced by the availability of alternate financing sources. In particular, the existence of private market financing at reasonable prices and tenors will often supplant the use of governmental financing (which is often perceived to have public policy "strings" attached). Private flows, however, are highly volatile and are susceptible to changes in the public perception of risk of particular borrowers.

Figure 4: Capital Flows into Emerging Markets ($Bn)

	2000	2002	2004
Private Lending	**$ 35.7**	**$1.6**	**$126.7**
Investment	**$149.9**	**$118.8**	**$176.8**
Direct	$135.6	$117.7	$138.3
Portfolio	$ 14.3	$1.1	$38.5

Data, shown in **Figure 4**, for capital flows to emerging markets in 2000, 2002 and 2004, highlight the overall volatility of such flows, particularly lending. Nevertheless, over a 4-year period net private sector lending to these borrowers nearly quadrupled (to $125 billion in 2004 from $35 billion in 2000). In response, ECAs have begun to consider both how to respond to the increase in activity by the private sector in the ECAs' traditional markets and what niches they should develop that would be of use to the market and attractive to emerging market borrowers. Two such niches that ECAs are considering are co-financing and financing of local currency obligations. (See **Chapters 4C** and **4D** for discussions of Ex-Im Bank's efforts in these areas.)

Trends in 2004: Focus Group Discussions

This section summarizes the views on export finance shared by the exporters and lenders who participated in the focus group discussions that were held in connection with this Report.

Market Overview

The consensus opinion from both the exporter and lender groups is that 2004 was a year of marked improvement from the previous three years as demand has picked up across virtually all geographic regions (most notably in the emerging markets of Asia, Middle East, Eastern Europe/CIS, Africa and to a lesser degree Latin America) and in most industry sectors. Power, energy, aircraft, and telecommunications sectors were mentioned most often as the dominant sectors and reflect a concerted effort by these emerging market countries to upgrade and build new infrastructure (roads, railways, communications, oil refineries, power plants). Moreover, the perceived risks in these emerging markets appear to be more acceptable to the exporting community either because the risks are actually more palatable and/or because the potential to benefit from increased export sales and a presence in these markets outweigh the potential costs.

Ex-Im Bank within the Market

Overall, the U.S. exporting community valued the financing that Ex-Im Bank offered during the year. The Bank is quite competitive in its core policies and practices, and in most of its major program structures. Moreover, the Bank was given credit for making a difference in many of the exporting community members' ability to win critical export sales in important sectors across countless markets. A number of exporters and lenders alike acknowledge

Ex-Im Bank's increased importance (particularly in light of the emergence of non-OECD ECAs) and encouraged Ex-Im Bank to actively support their U.S. export agendas to match this increased competition.

Chapter 2: Competitiveness Framework
Section B: ECAs' Mission and Place In Government

The Role of Export Credit Agencies

The central purpose of an export credit agency (ECA) is to finance domestic exports. However, there are numerous ways for an ECA to accomplish its mission. There are two influences on how an ECA will set its strategy to meet it purpose. The first influence is the OECD Arrangement, which sets the most favorable terms and conditions that may be offered for official export credit support. Within these multilateral rules, or parameters, individual ECAs have latitude to pursue their own national policies in support of their country's exports. The second influence is the ECA's mission as defined by its sponsoring government, which also impacts an ECA's ability to adapt to changing market circumstances. Both of these factors affect how ECAs will compete with each other in promoting their respective governments' national interests.

The purpose of this section is to highlight the different objectives and strategies of the G-7 ECAs and explore how these differences affect ECA's competitiveness. First, there will be a brief analysis of Ex-Im Bank's governmental mission and how this affects Ex-Im Bank's ability to respond to market pressures. Following the analysis of Ex-Im Bank is a general description of the roles that the G-7 ECAs play for their domestic governments.

Ex-Im Bank's Mission and Place in Government

Ex-Im Bank is the official U.S. government export credit agency. Ex-Im Bank's mission and governing mandates are codified in its Congressionally approved Charter (Export-Import Bank Act of 1945, as amended). Ex-Im Bank's core mission is to support U.S. exports and jobs by providing export financing that is competitive with the official export financing support offered by other governments. The public policy goal of this mandate is to enable market forces such as price, quality and service to drive the foreign buyer's purchase decision, not government intervention or the temporarily exaggerated perceptions of risk by private market participants. This mandate effectively directs Ex-Im Bank to fill market gaps that the private sector is not willing or able to meet, namely competitive financing (e.g., interest rates and repayment terms) and the ability to assume reasonable risks that the private sector is unable to cover at a moment in time.

To support its core mission, Congress has also legislated that Ex-Im Bank's financing be conditioned on:

- Supplementing, not competing with, private sector financing; and
- The finding of reasonable assurance of repayment.

Decisions on transactions should be based solely on commercial and financial considerations, unless the transaction:

- Fails to comply with Ex-Im Bank's Environmental Procedures and Guidelines;

- Causes an adverse economic impact on the U.S. economy; or
- Does not meet various statutory and executive branch parameters.

All of these directives aim to achieve a public policy goal and reflect the interests of Ex-Im Bank stakeholders, such as NGOs, other U.S. government agencies, labor and financial intermediaries. Hence, Ex-Im Bank is required to strike a fine balance among multiple, sometimes competing, goals and objectives. At the same time, Ex-Im Bank is expected to provide the U.S. exporting community with financing that is competitive with officially supported offers made by our foreign government counterparts – institutions that most often have fewer public policy constraints to evaluate when deciding whether to provide financing support. Given the G-7 ECAs' widely varying missions, the formula with which to compare Ex-Im Bank's competitiveness against these ECA counterparts is neither simple nor direct.

The Mission and Place in Government of Other G-7 ECAs

Although the G-7 ECAs each have unique operating strategies to support their country's exports, their strategies can be generalized into one of three categories. These categories describe the governmental role that determines the differences in levels of activity, products and focus among the G-7 ECAs.

> **Lender of Last Resort:** ECAs with this focus tend to encourage the active participation of the private sector and step in only when taxpayer dollars are needed to meet market gaps. Moreover, lenders of last resort assume a relatively higher level of responsibility for public policy goals as directed by their guardian authorities. Ex-Im Bank can be classified as a "lender of last resort". ECGD is the only other G-7 ECA that compares similarly to Ex-Im Bank in this role.
>
> **Private Sector Participant**: ECAs in this category are generally profit driven. As a consequence, the risk profile and controls placed on their portfolios tends to be more restrictive (with country exposure limits), resulting in moderate risk-taking. Public policy goals tend to carry less weight for these ECAs because of their private sector orientation. The European official ECAs, most notably Coface and Euler-Hermes (but also SACE), act like private sector banks/insurers because they are private entities that handle the medium- and long-term book of business on behalf of their respective governments. Operationally, these ECAs behave as private sector companies by taking advantage of the efficiencies associated with their private sector side.
>
> **Banker for the Country:** This type of ECA generally plays a larger role in the implementation of national trade policy, which is reflected in a broader mission (e.g., national content on specific sales is less important) and more expansive responsibilities. A consequence of this broader governmental mission is that these ECAs frequently are more flexible on public policies. Generally, these ECAs are more adaptable regarding business practices. The Canadian and Japanese ECAs view themselves as the only "international" bank in their respective countries.

Chapter 3: Core Business Policies and Practices
Section A: Cover Policy and Risk-Taking

Introduction

An ECA's willingness to provide risk support in a particular market is generally referred to as "cover policy". The extent to which an ECA has an open or closed cover policy can have a significant impact on an exporter's ability to provide financing support in their target markets: if the ECA is not open to providing cover in the exporter's market, the exporter may be unable to compete. ECAs determine cover policy by assessing the degree of political and commercial risk in a market and then adjusting the extent of their appetite for such risk consistent with their underwriting approach. The tools for that calibration include parameters such as transaction size limits, repayment term limits, and/or volume limits.

ECA's further refine the availability of their support by adjusting their cover policy depending on the type of borrower risk they are being asked to assume. For example, in some markets an ECA may be comfortable with the risks of the sovereign government, but not comfortable to the same degree with the risks of non-sovereign borrowers. Therefore, the ECA would have a cover policy that was open without restrictions for sovereign borrowers, while being open only under limited circumstances for non-sovereign borrowers in that market. As the pace of privatization in the developing world accelerates, ECAs are increasingly being asked to cover non-sovereign borrower risk. The willingness of a particular ECA to take such risks across a broad spectrum of countries has become a critical competitive aspect of an ECA's cover policy.

Ex-Im Bank's Policy and Practice

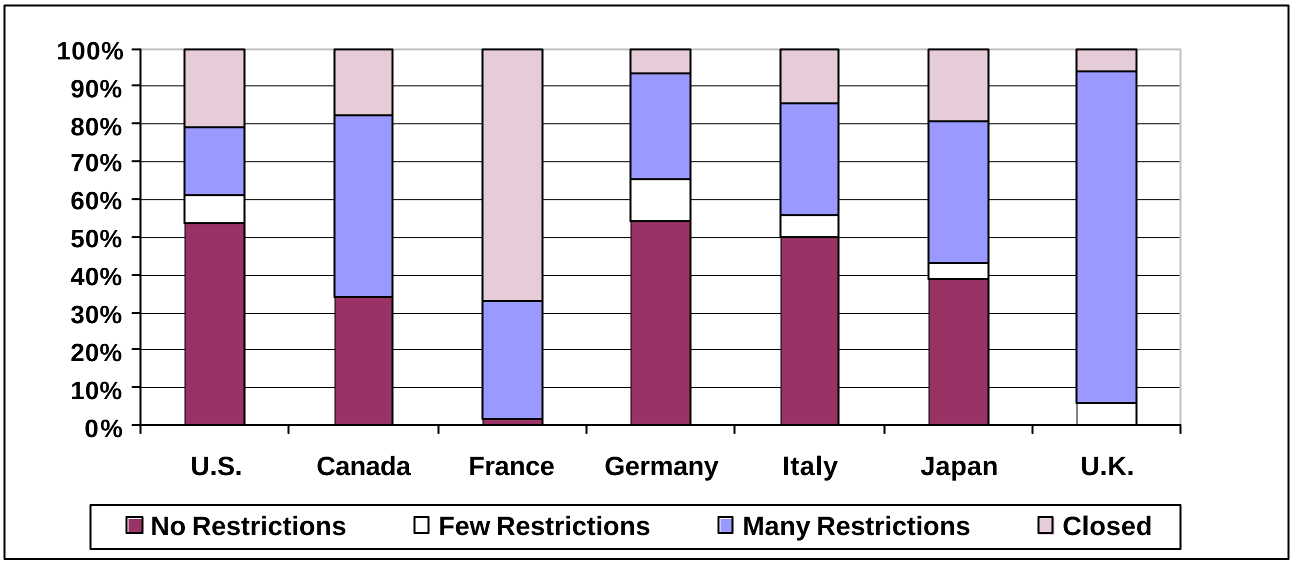
Ex-Im Bank generally will support transactions without size or country limits as long as there is a reasonable assurance of repayment for each transaction as required by Ex-Im Bank's Charter. One key exception to that requirement occurs when Ex-Im Bank is statutorily prohibited from doing business in a particular market, generally as a result of official sanctions. In 2004, Ex-Im Bank was legally prohibited from providing support in nine countries (specifically, Cambodia, Cuba, Iran, N. Korea, Laos, Libya, Myanmar, Sudan, and Syria).

Statutory prohibitions notwithstanding, the effect of the Charter's focus on case-by-case reasonable assurance of repayment is that Ex-Im Bank is generally open in more markets with fewer restrictions than most other ECAs and that Ex-Im Bank shows a willingness to cover the risk of smaller, private entities. For example, as illustrated in **Figure 5**, Ex-Im Bank is open without restriction (or with limited restrictions) in 60% of the applicable countries. Further, U.S. exporters and lenders enjoy a competitive benefit from the absence of country and sector ceilings on Ex-Im Bank's cover policy, as Ex-Im Bank's restriction on provision of cover in a given market pertains to the creditworthiness of a transaction, not portfolio controls.

G-7 ECAs' Policies and Practices

The U.S. has traditionally been one of (if not "the") least restrictive ECAs in terms of the general availability of cover. In 2004, a number of our G-7 competitors attained rough comparability on this aspect. (See **Figure 5**.) Moreover, most of the G-7 were open with no or limited restrictions in several key markets in which Ex-Im Bank was closed or heavily restricted.

Figure 5: Comparison of Medium- and Long-Term ECA Country Cover Policy as of December 2004



Another area where Ex-Im Bank has historically shown a greater willingness and ability to take risk has been with private obligors. However, available information indicates that several ECAs have surpassed Ex-Im Bank in the percentage of their annual authorizations that are to private obligors, and several ECAs have caught up with Ex-Im Bank.

Exporter and Lender Survey Results

Although exporters and lenders still focus on the harm to competitiveness that arises from unilaterally imposed trade sanctions, in 2004 they began to comment on their perception that Ex-Im Bank has become relatively (to previous years and some other ECAs) more "risk averse" with respect to country risk. The exporting community especially notes Euler Hermes of Germany in this respect (that is, customers have noted a much more aggressive posture and willingness to assume risk).

Conclusion

As the data above illustrate, Ex-Im Bank's overall competitive dominance in cover policy among the G-7 ECAs has diminished as: (a) some of the other ECAs are closing the gap on risk taking; and (b) one ECA (Euler-Hermes) exceeds Ex-Im Bank in its scope of country risk cover. The net outcome is that Ex-Im Bank is generally competitive in its cover policy.

Chapter 3: Core Business Policies and Practices
Section B: Interest Rates

Introduction

One of the most important components of an export finance contract's competitiveness is the interest rate charged to the buyer. In order to ensure a level playing field for ECAs by eliminating the use of concessional interest rates, the OECD Arrangement sets minimum interest rates for export transactions that receive official financing support either in the form of direct loans from an ECA or an interest makeup program (IMU)[1]. These minimum interest rates, or Commercial Interest Reference Rates (CIRRs), are fixed, market-related rates that are calculated using a government's borrowing costs plus a spread of 100 basis points. A CIRR is set for each currency based on the borrowings costs of the government that issues the currency, and all other countries providing official financing support in this currency should utilize the same CIRR rate.

Ex-Im Bank's Policy and Practice

Ex-Im Bank provides fixed-rate official support through its direct lending program and sets the interest rate monthly using the CIRR procedures outlined in the OECD Arrangement. In fiscal year 2004, only 2.6% of the $8.8 billion authorized under the medium- and long-term programs were direct loans. Interest rates for transactions under Ex-Im Bank's guarantee and insurance programs are set by the lender and are based on market terms (generally LIBOR plus a spread). For the past decade, buyers have overwhelmingly preferred Ex-Im Bank's guarantee and insurance products because of the lower interest rates that can be achieved on a floating rate basis in a declining interest rate environment.

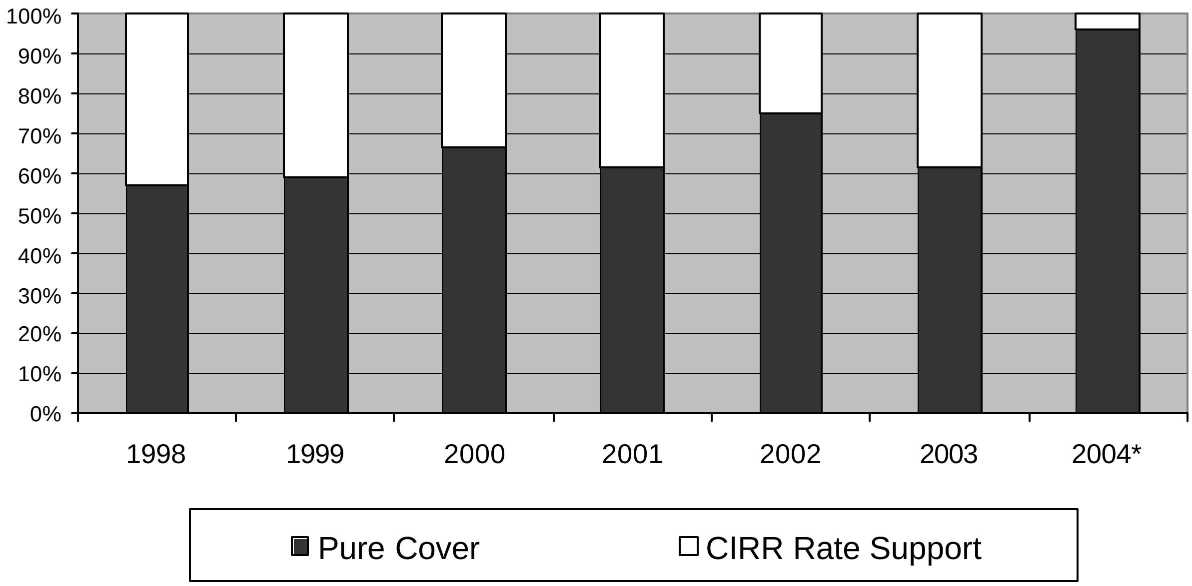
G-7 ECAs' Policies and Practices

All G-7 ECAs offer both fixed (CIRR support) and floating (pure cover) rate financing. While fixed-rate CIRR support is uniform across all G-7 ECAs because interest rates are set as outlined in the OECD Arrangement, there are some differences between the interest rates charged under a floating rate financing. Large transactions (i.e., over $10 million) generally receive the lowest interest rate pricing, while small transactions generally receive the highest interest rate pricing. Ex-Im Bank's unconditional guarantee can generate very low spreads where there is a sufficient transaction volume to make processing/selling profitable, but even the guarantee product can do relatively little on spreads of smaller transactions. The pricing of deals with pure cover support from the other ECAs tend to vary less because their banking systems have fewer players and the active banks get enough volume of transactions (small and big) to minimize the span of spreads. However, it appears that even their spreads have been moving downward over the past few years.

[1] Under an interest makeup program (IMU) commercial banks provide direct loans at CIRR rates to borrowers, while the ECA guarantees a return equal to the cost of borrowing plus a margin. The ECA then makes up the difference between the agreed return and the CIRR rate if the latter is lower than the former, and alternatively, the commercial bank returns the difference if the CIRR rate is higher than the agreed return.

There has been a clear shift over the past several years from fixed rate financing towards the more flexible floating rate financing (shown in **Figure 6**). While in the past, other G-7 ECAs have offered mostly fixed rate financing, in 2004 all G-7 ECAs were active in providing pure cover products. This is a reflection of customer needs and preferences, as lower interest rates can be achieved through floating rate financing. Ex-Im Bank is therefore very competitive compared to other G-7 ECAs because of its 100% unconditional guarantee product.

Figure 6: Long-Term Export Credits by Type of Credit (all OECD member states)*



Exporter and Lender Survey Results

None of the survey respondents used Ex-Im Bank's Direct Loan program in 2004. The exporting community used mostly the insurance and guarantee programs, which generate better rates on a floating rate basis.

Conclusion

Consistent with previous years' results, competition among the G-7 ECAs on the basis of interest rates has not been a significant factor during 2004 as a result of the OECD Arrangement minimums. Interest rates obtained in the private market continued to be lower in 2004 than the fixed rate CIRRs set by the OECD Arrangement. Hence, Ex-Im Bank's unconditional guarantee coupled with relatively low market interest rates has generally yielded a slight advantage to U.S. exporters involved

* 2004 data is preliminary; Source: 2003 Report on Export Credit Activities. TD/ECG(2004)16/FINAL

in long-term transactions, relative to our G-7 counterparts and makes Ex-Im Bank fully competitive in this aspect of long-term guarantee transactions. The interest rates charged on medium-term transactions, whether guarantee or insurance, however, appear to be at a slight disadvantage relative to the prices of our G-7 counterparts and results in Ex-Im Bank being slightly better than modestly competitive on medium-term transactions. The net is generally competitive overall.

Chapter 3: Core Business Policies and Practices
Section C: Risk Premia

Introduction

Export Credit Agencies charge exposure fees, also known as risk premia, as compensation for the repayment risk they assume when they guarantee or insure a loan. Although many factors influence the all-in cost of an officially supported export transaction, the exposure fee can constitute a considerable share of the direct financing costs. In 1999 the OECD adopted the Knaepen Package, which defined the elements for the determination of sovereign fees and set Minimum Premium Rates (MPR) for sovereign transactions. The MPR for sovereign transactions also serves as the floor in pricing the exposure fee for non-sovereign transactions.

Several factors are taken into consideration when establishing MPRs, including the percentage of cover, the quality of the product (i.e. unconditional guarantee vs. conditional insurance[1]) and the claims payment policy. The latter two factors determine whether a product is considered "above standard," "standard" or "below standard". Because of the differences between those products, they are also priced differently, with "above standard" products being the most expensive (by as much as 2% over the standard) and "below standard" products being the least expensive (by as much as 2% less than the standard). The surcharges/discounts corresponding to these product differences are known in the OECD as the "related conditions surcharges" and are designed to level the playing field among the ECAs that have different products. Surcharges/discounts also exist for differences in percentage of cover and are called "quality surcharges". There is no surcharge/discount for 95% cover, but 100% cover does receive a surcharge between 5.3% and 14.3%, depending on the risk level of the country, and 90% cover receives a discount of 5.4%. While the OECD agreement establishes a floor for the fees ECAs may charge, there is no ceiling and each ECA may add other surcharges to the MPRs according to their risk assessment process.

Ex-Im Bank's Policy and Practice

Ex-Im Bank charges the MPR for sovereign risk transactions. Non-sovereign transactions are priced individually based on a review of the borrower's creditworthiness using a methodology similar to that of rating agencies. Ex-Im Bank rates a borrower by evaluating its country, industry, financial characteristics and management. Ex-Im assigns a rating and then compares that rating to the sovereign. If the non-sovereign borrower has a similar rating as the sovereign, the premium charged would be the same as the sovereign (i.e. the MPR). If the risk is assessed to be higher, an incremental surcharge is added to the MPR.

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[1] A conditional product is a product in which the obligation to pay a claim is conditioned upon the performance of a third party, i.e., the insured, as stipulated by the policy itself. For example, with Ex-Im Bank's insurance product, the insured party is responsible for performing certain functions such as obtaining and verifying specific documents related to the underlying transaction, payment of premium, monthly reporting, etc. in a form satisfactory to Ex-Im Bank. Ex-Im Bank does not review these documents prior to approval as it does in the guarantee product. Rather, only in the event of a claim is the insured required to present the documents and if they conform to Ex-Im Bank's requirements as stipulated in the policy, coverage can be affected. An unconditional product is a product wherein the payment of the claim is guaranteed by inspecting all necessary documentation at the time of issuance of such product and no additional documentation or proof is required at time of claim payment.

G-7 ECAs' Policies and Practices

All G-7 ECAs generally charge the MPR for sovereign transactions. For non-sovereign transactions, there are differences among G-7 ECAs both in pricing methodology and risk assessment. Both of these factors lead to divergence in pricing among ECAs for non-sovereign borrowers.

Because each ECA has its own underwriting process, the risk assessment of the same buyer may differ (in some cases sharply) among the G-7 ECAs. Differences in risk assessment can lead to pricing differences, as many ECAs charge higher premiums for riskier borrowers.

Independent of the risk assessment for a borrower, ECAs differ in their pricing methodologies. European ECAs tend to add surcharges based on the type of borrower (i.e., financial institution, public non-sovereign versus non-financial institution), while non-European ECAs tend to price transactions based on a risk assessment of the borrower.

Whether these differences appropriately reflect all-in institutional factors, or represent an unfair competitive advantage, is currently a focus of research and analysis at the OECD.

Exporter and Lender Survey Results

Exporters appreciate and value the Ex-Im Bank system of non-sovereign pricing, but continue to support refinements that Ex-Im Bank's premia rates for non-sovereign transactions reflected a more rigorous underwriting process as compared to some European ECAs.

Conclusion

Competition on the basis of risk premia was neutralized for sovereign risk transactions with the adoption of the Knaepen package in 1999. For non-sovereign pricing, the G-7 ECAs offer a broad range of risk premia because of the different approaches the ECAs take regarding assessing and pricing of risk. For a variety of reasons (that are now being discussed in international fora), Ex-Im Bank's non-sovereign pricing has been fully competitive. Historically, a highly competitive position for this area has been central to the ability of the Bank to achieve an overall competitive position.

Chapter 3: Core Business Policies and Practices
Section D: Ex-Im Bank's Core Competitiveness

Overall, Ex-Im Bank's core business policies and practices were graded an **"A",** generally competitive, meaning that Ex-Im Bank consistently offered terms that were equal to the average terms offered by the typical ECA such that the core programs level the playing field with the standard ECA offer. **Figure 7** illustrates how Ex-Im Bank fared competitively on sub-elements of each program, in addition to an aggregate grade for each program. The grades are derived from both the survey results and the Bank's analysis of how it performs in comparison to its G-7 counterparts.

Figure 7: Grading of Ex-Im Bank's Core Competitiveness

Key Elements	Grade
Cover Policy	**A**
Scope of Country Risk	A
Depth of non-sovereign risk	A
Breadth of availability (e.g., restrictions)	A
Interest Rates	**A**
CIRR	A
Cover: Large/Long-term	A+
Cover: Small/Medium-term	A-/B+
Risk Premium	**A+**
Sovereign	A
Non-sovereign	A+
Total Average Grade	**A**

Chapter 4: Comparison of Major Program Structures
Section A: Large Aircraft

Introduction

The economic and strategic importance of the civil aircraft manufacturing industry within the United States and Europe, together with the significant cost and long useful life of large commercial aircraft, has justified a separate annex to the OECD Arrangement setting forth the terms of, and procedures for, ECA-supported aircraft financings (the Aircraft Sector Understanding). The section of the Aircraft Sector Understanding that pertains to "large aircraft" is known as the Large Aircraft Sector Understanding, or LASU, with "large aircraft" defined as airplanes with 70 seats or more[1]. Today there are two primary producers of large aircraft in the world: Boeing in the United States and Airbus SAS (Airbus) in Europe. Accordingly, the Participants that are active under the LASU are the United States and the European Union, which, in this context, represents the interests of France (Coface), Germany (Hermes) and the United Kingdom (ECGD). These three ECAs are collectively referred to as the "Airbus ECAs" because they are the ECAs that finance the export of Airbus aircraft.

In recent years, both Embraer in Brazil and Bombardier in Canada have begun producing and delivering regional jets with at least 70 seats, and Embraer will soon begin delivering aircraft with over 100 seats.[2] In 2004, the United States, the European Union, Canada and Brazil began discussions on revising the Aircraft Sector Understanding. Thus, it is possible that in the future, Brazil (BNDES and SBCE)[3] may become part of an agreement governing official export credit support for large aircraft. Canada is already a Participant and would be part of any revised agreement.

The current LASU establishes the terms and conditions of export credit support that governments can extend to buyers of large aircraft. It sets a minimum cash payment of 15%, an interest rate structure for ECA direct loans and a maximum 12-year repayment term. The Aircraft Sector Understanding also sets forth the terms of, and procedures for, ECA-supported financing of spare engines and spare parts related to large aircraft. In implementing the LASU, Ex-Im Bank and the Airbus ECAs have agreed not to provide support for large aircraft into those producer country markets that do not have a government supported import program (also known as "home market countries", which currently includes the United States, France, Germany, the UK and, as a result of a separate agreement between the Airbus ECAs and Ex-Im Bank, Spain). Finally, the LASU prohibits tied aid financing for large aircraft.

In the past decade, Airbus and Boeing have accounted for approximately equal shares of large aircraft orders; however, as illustrated in **Figure 8**, Airbus has received more orders than Boeing in the last four consecutive years. The results during the past five years reflect the highly competitive nature of the large civil aircraft manufacturing industry.

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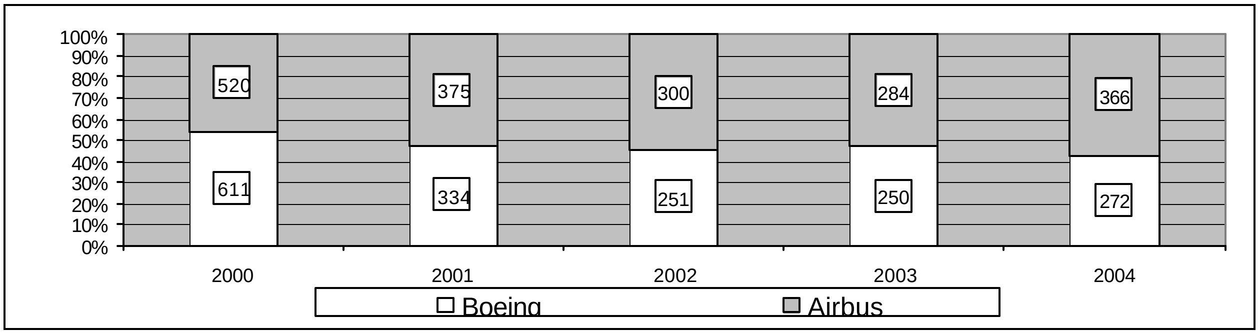
[1] Comparably sized aircraft configured for cargo operations are included in the definition of "large aircraft".
[2] In March 2005, Bombardier announced that it would begin seeking customers for a 110-130 seat aircraft.
[3] BNDES (Brazilian Development Bank) and SBCE (Brazilian Export Credit Insurance Agency) are the two official providers of export credits for the Brazilian government. They operate similarly to Japan's JBIC and NEXI, i.e., BNDES provides direct loans and SBCE provides insurance coverage, often for the same transactions.

Figure 8: Orders of Large Commercial Jet Aircraft



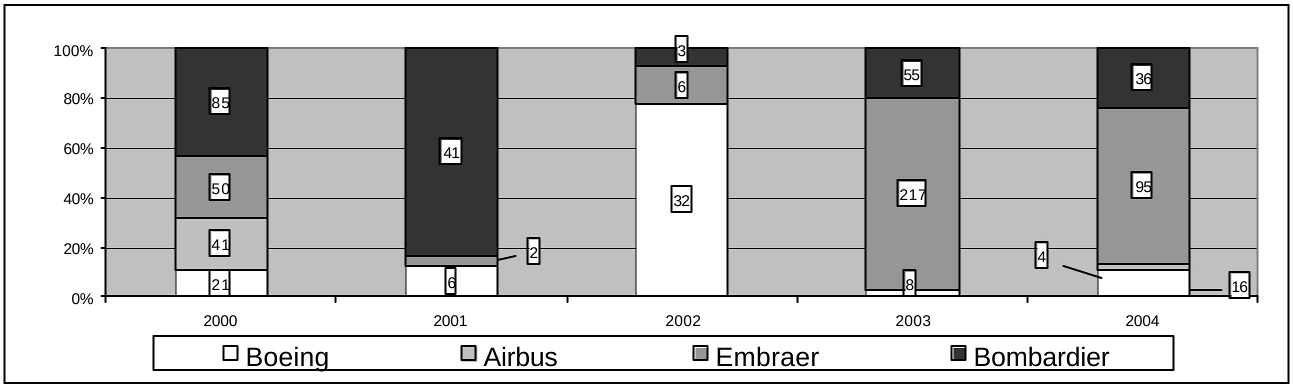
As noted above, the regional jet manufacturers in Canada (Bombardier) and Brazil (Embraer) have recently begun producing large aircraft (i.e., regional jets with 70 or more seats). Although to date the primary market for the regional jets manufactured by Bombardier and Embraer has been U.S.-based airlines, the trends that led to regional jet purchases in the United States – bringing passengers from smaller cities to hub airports and more point-to-point flights between smaller city pairs – are likely to spread to markets outside the United States, where these large regional jets will be competing with the smallest U.S. and European manufactured large aircraft. Both regional jet manufacturers are receiving more orders from European based airlines, and other markets may follow. While the largest regional jets available today still do not generally compete with the smallest commercial aircraft sold by Boeing and Airbus, there occasionally is competition among all four aircraft manufacturers (e.g., the recent 2003-2004 Air Canada single aisle campaign). **Figure 9** illustrates the aircraft models that could generate four-way competition, and **Figure 10** shows orders for these aircraft.

Figure 9: Aircraft Models That May Result in Four-way Competition

Manufacturer	Model	Seats	Maximum Range (nautical miles)
Boeing	B-737-600	110 – 145	3,050 nm
Boeing	B-717[4]	106 – 125	2,060 nm
Airbus	A-318	107 – 129	2,850 nm
Embraer	ERJ-190/195	94 – 106	2,200 nm
Embraer	ERJ-170/175	70 – 86	2,000 nm
Bombardier	CRJ-900	86 – 90	1,798 nm
Bombardier	CRJ-700	70 – 75	2,000 nm
Bombardier	CSeries[5]	99 – 130	3,000 nm

[4] Production scheduled to end 2006.
[5] Announced 2004, with production expected to begin 2010.

Figure 10: Orders of 70–130 Seat Jet Aircraft



Ex-Im Bank's Policy and Practice

Ex-Im Bank support for large aircraft transactions is provided almost entirely through its guaranteed loan program. Under this program, Ex-Im Bank provides a 100% unconditional payment guarantee of the repayment of principal plus interest at the contractual rate. As a result, this program results in attractively priced financing on the Ex-Im Bank guaranteed portion of the transaction. An additional benefit of Ex-Im Bank's guarantee program is the Bank's willingness to guarantee financings denominated in currencies other than the U.S. dollar. In 2004, Ex-Im Bank guaranteed foreign currency loans for six aircraft transactions (please see **Chapter 4D** for further information on Ex-Im Bank's foreign currency guarantee program).

In 2004, Ex-Im Bank extended its offer, through September 30, 2005, to reduce by one-third (1/3) its exposure fee on asset-based aircraft transactions for airlines based in countries that adopt, ratify and implement the Cape Town Treaty (including certain optional provisions). The Cape Town Treaty is an international treaty that will facilitate asset-based financing and leasing of large commercial aircraft and aircraft engines by reducing the risk in cross-border asset-based aircraft financing. Ex-Im Bank believes the decrease in risk due to the improved legal environment resulting from the adoption and ratification of the Cape Town Treaty justifies the exposure fee reduction. Since Ex-Im Bank first adopted this initiative in 2003, airlines in Panama, Ethiopia and Pakistan have qualified for improved financing terms, including the exposure fee reduction, with respect to the export of a total of 14 aircraft and five spare engines.

Airbus ECAs' Policies and Practices

During the past two years, the Airbus ECAs have implemented a number of policy changes that have made their programs very similar to Ex-Im Bank's. First, Hermes and Coface now provide their official export credit support for large aircraft through a 100% unconditional guarantee program similar to ECGD and Ex-Im Bank. Second, the Airbus ECAs abandoned a free, three-year interest rate lock option that provided a significant advantage to buyers of Airbus aircraft. Finally, the Airbus ECAs now generally charge an upfront exposure fee of at least 3% for their aircraft financings, as does Ex-Im Bank.

Taken together, these three changes in the Airbus ECAs' financing practices related to large aircraft have resulted in a financing package that is more similar to that offered by Ex-Im Bank. Thus, the opportunity for either the Airbus ECAs or Ex-Im Bank to gain a competitive edge due to advantageous programmatic features appears to be fading.

Summary Data

The operating environment improved for airlines in 2004, but a number of uncertainties continued to present a challenging environment for aircraft financiers. These included: the continuing terrorist threat to the international airline industry; major airline bankruptcies in the United States and Europe; soaring fuel prices; and competition from low-cost airlines. This environment has resulted in a contraction of the commercial aircraft finance market by private sector financial institutions, particularly in traditional Ex-Im Bank markets. In addition, given that many of these factors had a direct, negative impact on airlines based in the United States, Boeing (and Airbus) delivered an unusually high percentage of their aircraft to airlines outside of the United States. As illustrated in **Figure 11**, exports (by number of aircraft deliveries) have accounted for a growing portion of Boeing's deliveries since 2001, exceeding 50% in both 2003 and 2004[6]. While the percentage of Boeing's export sales supported by Ex-Im Bank averaged approximately 35% during the past five years, it was only 27% in 2000 and 2001, increasing to an average of 40% from 2002 to 2004.

Figure 11 Deliveries of Boeing Commercial Jet Aircraft

	2000		2001		2002		2003		2004		Total	
	#	%	#	%	#	%	#	%	#	%	#	%
Domestic	283	58%	370	70%	199	52%	127	45%	142	50%	1,121	57%
Foreign	206	42%	157	30%	182	48%	154	55%	143	50%	842	43%
Foreign supported by Ex-Im Bank	56	27%	43	27%	72	40%	68	44%	53	37%	292	35%
Total	**489**		**527**		**381**		**281**		**285**		1,963	

Exporter and Lender Survey Results

Ex-Im Bank's aircraft financing support received a grade of "A," meaning that the Bank's support was generally competitive with that provided by other ECAs. The Bank's Cape Town Treaty fee discount was specifically identified as a positive aspect of the Bank's program. Ex-Im Bank was complimented on its aggressive approach, with exporters noting the Bank's willingness to assume greater risk than the European ECAs and a streamlined legal process. In addition, Ex-Im Bank's foreign currency program and its co-financing agreements with ECGD and NEXI were identified as having been quite helpful during the year.

Issues of concern centered on Ex-Im Bank's foreign content policy, in comparison to which the European ECA support for Airbus appears more flexible. In addition, exporters indicated that the

[6] The number of new aircraft delivered to, and operated by, airlines outside the United States is actually much higher than that which is reflected in Figure 14 because of the large number of aircraft that are sold to U.S.-based aircraft leasing companies and leased to foreign airlines.

Bank is not sufficiently supportive of engine overhaul and other after-market aircraft services, particularly for U.S. engines on Airbus aircraft. This relates to a long-standing U.S. government policy that prohibits Ex-Im Bank from financing any U.S. content on any Airbus aircraft, even those that have been in use for some time and are not the subject of a sales campaign. Finally, market window support remains a concern, particularly given the likelihood that Bombardier will produce a 110-130 seat aircraft that will receive EDC support.

Conclusion

Ex-Im Bank's aircraft financing support continues to be generally competitive with the financing offers provided by the Airbus ECAs. Exposure fees, foreign currency guarantees, co-financing, and an aggressive risk posture all contribute to this assessment. On the other hand, the Airbus ECAs now provide a guarantee very similar to Ex-Im Bank's, and market windows, foreign content limitations and after-market services support detract from an otherwise outstanding rating. Nonetheless, the U.S. exporting community believed that Ex-Im Bank remained very supportive of U.S. aircraft exports during 2004.

In looking ahead, at the end of 2004, the United States, European Community, Brazil and Canada all agreed to begin formal negotiations to review and possibly revise the OECD Arrangement's Aircraft Sector Understanding in 2005. Through these negotiations, which are not expected to conclude before 2006, Ex-Im Bank will seek to ensure that its aircraft export credit program continues to provide competitive support for U.S.-manufactured aircraft while leveling the playing field for all manufacturers of large aircraft.

Chapter 4: Comparison of Major Program Structures
Section B: Project Finance

Introduction

In Project Finance (or limited recourse project finance), the lender has access only to the assets and income generated by the covered project and not the assets or income of the borrower (which may extend beyond the project). Projects covered under this financing structure are normally large, long-term infrastructure and industrial projects that benefit from ECA support because financing terms in the private market are often unavailable or unfavorable due to the time and risk associated with such projects (particularly in developing countries). ECAs have been providing support for limited recourse project finance transactions since the early 1990s.

Ex-Im Bank's Policy and Practice

Ex-Im Bank's project finance program was created in 1994 and is generally competitive compared to the other G-7 ECAs. There are four main factors that make Ex-Im Bank's project finance program competitive. These include: (1) 100% U.S. government-guaranteed support for all risks (political and commercial) during both the construction and repayment periods, (2) willingness to utilize the project finance flexibilities, (3) financing of local country costs (up to 15% of total financing) and (4) availability for capitalization of interest during construction. Additionally, there are no project or country ceilings, which allows for maximum flexibility of program implemention.

G-7 ECAs' Policies and Practices

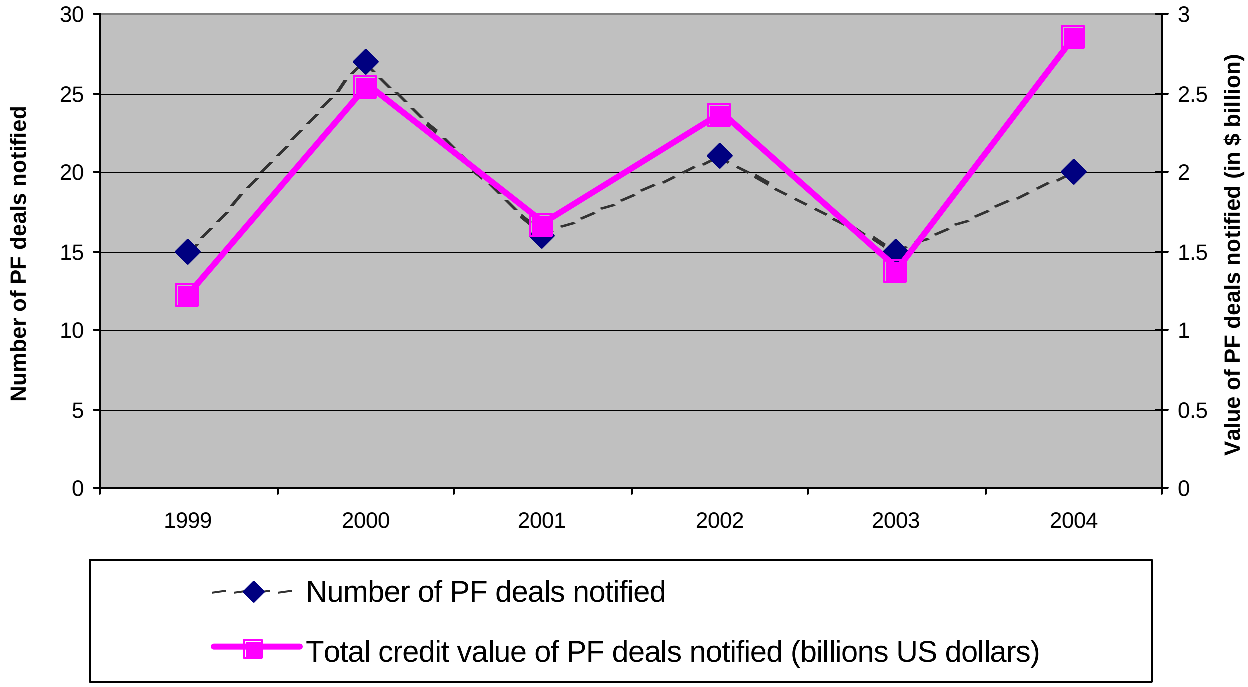
G-7 ECAs offer similar coverage for project finance transactions. All ECAs provide cover for at least 90% of the political and commercial risks during the life of the project, support local costs up to the amount of the downpayment (normally 15%), and capitalize the interest that accrues during the construction period. **Figure 12** shows that there are some differences in the quality of the coverage they provide with Ex-Im Bank and ECGD providing unconditional guarantees, EDC and JBIC providing direct loans and the other four G-7 ECAs (Coface, Nexi, Hermes and SACE) providing conditional insurance.

In 2004 the number (20) and total value ($2.85 billion) of project finance deals notified (as required by the OECD Agreement for project finance deals that apply certain modifications to the standard repayment structure) was slightly higher than in 2003 (15 and $1.36 billion respectively). Over a longer time period, however, there is some volatility in the number and dollar volume of project financings, which is due to the cyclical nature of the industry (see **Figure 13**).

Figure 12: Comparison of ECA Project Finance Program Features

	Product & Related Conditions	Comprehensive Pre-Completion Cover	Comprehensive Post-Completion Cover	IDC up to 100%	Local Costs up to 15%
Coface (France)	95% Below Standard Insurance		✓	✓	✓
ECGD (UK)	100% Above Standard Guarantee	✓	✓	✓	✓
EDC (Canada)	Standard Direct Loan	✓	✓	✓	✓
Euler-Hermes (Germany)	95% Below Standard Insurance	✓	✓	✓	✓
JBIC (Japan)	Standard Direct Loan	✓	✓	✓	✓
NEXI (Japan)	97.5% Below Standard Insurance		✓	✓	✓
Sace (Italy)	95% Below Standard Insurance	✓	✓	✓	✓
US Ex-Im Bank	100% Above Standard Guarantee	✓	✓	✓	✓

Figure 13: Total Number and Size (billions US dollars) of PF deals notified (all OECD member states) *



Exporter and Lender Survey Results

Only four lenders of survey respondents had any experience with Ex-Im Bank's project finance program in 2004. Within this limited group, recommendations focused primarily on faster response times and adopting more market-oriented practices. A comment was made that there appears to be a growing number of smaller "hybrid project finance" transactions that take advantage of project finance structures that do not necessarily possess all of the required characteristics of limited recourse project financing. Overall, the project finance program was rated highly by those four respondents, the majority of whom are complimentary of Ex-Im Bank's Project Finance Division.

Conclusion

The project finance industry is cyclical in nature and is affected by the strength of the world economy and of key industries. Thus, over the past six years, there has been a high level of volatility in the number and dollar volume of project financing. Despite the volatility in the worldwide project finance arena, Ex-Im Bank continues to be a significant player in the ECA project finance

* 2004 data is preliminary.

arena. Ex-Im Bank's project finance program is fully competitive with those offered by the other G-7 ECAs.

Chapter 4: Comparison of Major Program Structures
Section C: Co-Financing “One-Stop-Shop”

Introduction

“Co-financing” or “reinsurance” are terms used to refer to financing arrangements that allow an exporter to market a single ECA financing package to a buyer interested in procuring goods and services from two (or more) countries. Without co-financing, the parties would need to secure separate financing contracts with each ECA to ensure support for exports from various countries. The location of the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction.

The lead ECA provides the applicant (buyer, bank or exporter) with export credit support for the entire transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee) to the lead ECA for its share of the procurement. Thus, the lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package. The growth of intra-European and international co-financing evidences that availability and ease of ECA co-financing has become an important and measurable competitive issue.

Ex-Im Bank’s Co-Financing “One-Stop-Shop” Arrangements

To facilitate financing for cases that involve multiple export credit agencies (ECAs), during 2004 Ex-Im Bank continued to establish “one-stop-shop” co-financing framework agreements. Specifically, in 2004 Ex-Im Bank signed two bilateral co-financing agreements with SACE of Italy and NEXI of Japan. In addition, Ex-Im Bank signed a bilateral co-financing agreement to be used to support sales of cargo aircraft with Korean Export-Import Bank and recently concluded its first one-off/transaction-specific agreement with IFTRIC of Israel[1]. [Note: The NEXI and K-Exim agreements can be used only for transactions where Ex-Im Bank is the lead ECA.]

With respect to co-financing transactions during 2004, Ex-Im Bank approved 13 transactions, of which 4 were co-financed with ECGD; 6 were co-financed with EDC and the remaining 3 were co-financed as one-off transactions with COFACE (France); EKF (Denmark) and (K-Exim) of Korea[2]. (See **Figure 14** for a listing of specific transactions).

Despite the policy and practical differences between Ex-Im Bank and the insurer ECAs’, Ex-Im Bank continues to search for technical solutions that will allow specific transaction experience to accrue, and perhaps pave the way for future co-financing framework agreements. The goal is to establish agreements that would ensure compliance with internal (and U.S.) policies and, at the same time, be acceptable to other ECAs. Unlike most other ECAs, Ex-Im Bank does not require a formal

[1] Note that the transaction with IFTRIC of Israel was finally approved in 2005 so details will be reported in the 2005 Competitiveness Report.
[2] The transaction with K-Exim was a Preliminary Commitment.

bilateral framework agreement before considering co-financing transactions. Thus, Ex-Im Bank will process co-financing requests for transactions with ECAs on a case-by-case basis.

Figure 14 details the one-stop-shop co-financing transactions that the Bank has authorized in 2004. In summary, the Bank authorized 13 co-financing transactions last year totaling approximately $1 billion. In terms of sectors, two thirds of the co-financing activity (around $667 million) was for large aircraft transactions while the remaining one third was used to support locomotive, power, medical and small aircraft exports.

Figure 14: Ex-Im Bank "One-Stop-Shop" Co-finance Transactions in 2004

Ex-Im Bank & Co-financing ECA	Market	Project	Amount
Japan: NEXI	Uzbekistan	Aircraft	$81 million
Canada: EDC	Turkey	Locomotives	$86.8 million
France: COFACE	Turkey	Power project	$23.2 million
EKF: Denmark	Turkey	Power project	$50 million
Canada: EDC	Russia	Tractors	$8.3 million [3]
Korea: K-Exim [4]	Mexico	Power project	$229 million
United Kingdom: ECGD	Luxembourg	Aircraft	$123.9 million
United Kingdom: ECGD	Kenya	Aircraft	$124 million
United Kingdom: ECGD	Hong Kong	Aircraft	$337.9 million
Canada: EDC	Brazil	Medical equipment	$1.8 million
Canada: EDC	Brazil	Small aircraft	$388,000
Canada: EDC	Brazil	Small aircraft	$407,000
Canada: EDC	Brazil	Small aircraft	$482,000
Total			**$1,212,177,073**

[3] Transaction was authorized in 2004 but subsequently withdrawn.
[4] The transaction with K-Exim was a Preliminary Commitment.

G-7 ECAs' Policies and Practices

As shown below in **Figure 15**, the bulk of co-financing agreements exist among the European ECAs who have signed multiple framework agreements between themselves and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure. In 2004, Ex-Im Bank canvassed the European ECAs and learned that ECGD, COFACE and HERMES have all established cooperation and reinsurance agreements with some riskier EU (and, in limited situations, non-EU ECAs). However, no transaction experience has yet been reported under these agreements. The news for 2004 is that the Japanese ECA NEXI has joined the G7 ECAs prepared to offer co-financing one-stop shop support.

Figure 15: G-7 Co-financing "One-Stop-Shop" Agreements in 2004

	Ex-Im	ECGD	EDC	Hermes	Coface	SACE	NEXI
Ex-Im		X	X			**X**	**X**
ECGD	X		X	X	X	X	
EDC	X	X			X		
Hermes		X	X		X	X	X
Coface		X	X	X		X	X
SACE	X	X		X	X		X
NEXI	X			X	X	X	

Exporter and Lender Survey Results

Respondents offered a full spectrum of views in the area of co-financing. Generally, respondents praised Ex-Im Bank's case processing on specific co-financing transactions. Some respondents noted that while the demand for multi-sourced projects and co-financing is steadily increasing, ECAs -- including Ex-Im Bank -- are slow to develop a responsive program. Others noted that Ex-Im Bank seemed more reluctant to engage fully on the complex range of issues presented by co-financing. In the end, respondents considered Ex-Im Bank co-financing to be modestly competitive with the co-financing/reinsurance offered by the major ECAs.

Conclusion

Ex-Im Bank's cofinancing program has grown at a steady pace over the past four years. In 2004, Ex-Im Bank signed two more co-financing agreements with G-7 counterparts and authorized 13 co-financing transactions (ranging in size from several hundred thousand dollars to several hundred million dollars and across most of the core sectors). U.S. exporters positively noted these events, but felt that the Ex-Im Bank program was still less competitive than the standard European program. Hence, Ex-Im Bank's co-financing program appears to register in 2004 as better than last year, but as yet only modestly competitive ("B") with other ECA co-financing programs.

Chapter 4: Comparison of Major Program Structures
Section D: Foreign Currency Cover

Introduction

The official export credit world uses the term "foreign currency financing" to refer to an export credit denominated in a currency other than the ECA's domestic currency. It is a relatively common practice for ECAs to provide cover in "hard" currencies such as the U.S. dollar, the Euro and the Japanese yen. While ECAs have historically been unwilling to do business in "soft" currencies due to their foreign exchange volatility, this unwillingness is being reconsidered.

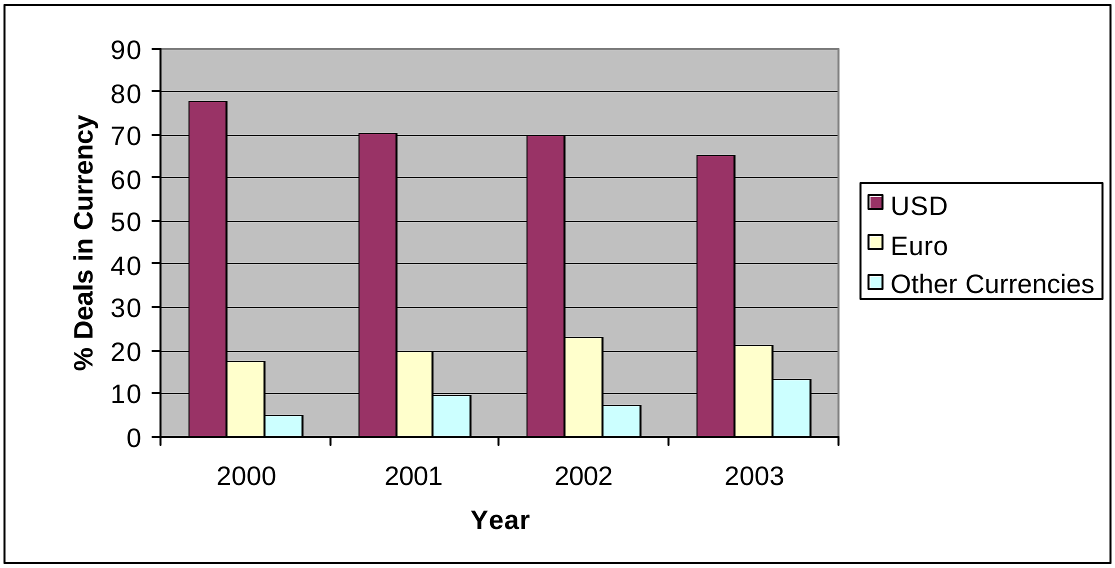
In the past few years, soft currency financing has become an important source of capital for certain borrowers and project types. In the wake of the Asian financial crisis, the IMF has been encouraging developing countries to take on debt in their domestic currency rather than in hard currencies in order to minimize the cost of exchange rate changes. As a result, some of the Multilateral Development Banks have been engaging in more foreign currency lending. As a result, interest in soft currency coverage from borrowers is trending upwards and stimulating ECA interest. In response to the potential for an increased demand, many ECAs are either reviewing their soft currency coverage policy or considering starting one if there is not already a policy in place.

Trends in Foreign Currency Cover

Hard Currency Trends

A trend of particular relevance to this topic is that the U.S. dollar percentage of OECD ECA long-term financings has been declining since 2000. Specifically in 2000, roughly 78% of all long-term financings were in U.S. dollars. By 2003, this number had decreased to 65%. Since the percentage of deals financed in Euros has increased only slightly (from 18 to 22%), the remaining void has been filled by other hard currencies such as the Japanese Yen and the Swiss Franc. The main point is that non-dollar financing is increasingly important in long-term ECA financing. **Figure 16** below displays this trend.

Figure 16: Long-Term OECD Export Credits Financed in U.S. dollars, Euros, and All Other Currencies (2000-2003)



Soft Currency Trends

The second foreign currency trend of note is that the use of soft currency is slowly gaining interest as a source of long-term ECA business. While none of the G-7 ECAs (besides Ex-Im Bank) have completed a deal in a soft currency in the past five years, several smaller ECAs concluded a modest volume (roughly $15 million aggregate) of long-term transactions denominated in the borrower's domestic currency over the past few years.

Ex-Im Bank Policy and Practice

The foreign currency guarantee program at Ex-Im Bank was introduced in 1980 in response to the significant interest rate differential (commonly referred to as "the interest rate illusion") that existed at that time between the U.S. dollar and other foreign currencies such as the German mark and Japanese yen. Over time, however, the justification for the program has evolved to become one focused on competitiveness (i.e., other ECAs are offering similar products). These trends have led Ex-Im Bank to offer foreign currency cover in an increasing number of currencies.

Ex-Im Bank offers foreign currency support through its guarantee and insurance programs by backing loans denominated in a foreign currency that are extended by a lender (usually a commercial bank). In the event of a default, Ex-Im Bank purchases the foreign currency to pay the claim to the lender and then converts the obligation to U.S. dollars equal to the amount that Ex-Im Bank paid to obtain the foreign currency. This policy effectively shifts the exchange risk from Ex-Im Bank to the obligor.

In 2004, Ex-Im Bank authorized $1.3 billion worth of foreign currency business, or 14% of all medium and long-term guarantee and insurance activity.

Hard Currency Practice

In 2004, the vast majority of the Bank's foreign currency business was denominated in a hard currency, amounting to $1.3 billion worth of authorizations. The cases consisted of six aircraft deals (one Yen, three Euro, two Australian dollar) that amounted to $1.13 billion, and one Euro denominated motorway construction transaction worth $164 million. In addition, on a significantly smaller scale there were two Euro denominated medium-term insurance transactions that amounted to $3.4 million.

Soft Currency Practice

In 2004, Ex-Im Bank authorized $25 million in support of four soft currency transactions. This included guarantee support for two Mexican peso deals amounting to $6.1 million and one Colombian peso deal worth $13.6 million. In addition, there was one medium-term insurance transaction denominated in Mexican pesos worth $5.1 million.

G-7 Policies and Practice

For the most part, G-7 ECAs offer foreign currency products that are generally quite comparable with one another. However, three main differences separate the foreign currency activities of the G-7:

- Willingness to offer soft currency coverage.
- Willingness to take foreign exchange risk (defined as paying claims and accepting recoveries in the foreign currency, without using any hedging mechanism).
- Pricing of foreign currency transactions.

Willingness to Offer Soft Currency Coverage

As mentioned in the introduction to the chapter, the demand for soft currency cover is slowly increasing. Discussions with the other G-7 ECAs revealed that there has been a slight increase in soft currency requests; although none have materialized into actual transactions. However, in anticipation of increased demand, three of the six other G-7 ECAs are actively reviewing their soft currency programs (or lack thereof).

Willingness to Accept Foreign Exchange Risk

The second major variant in G-7 practices is the willingness to take foreign exchange risk.[1] In this case, practices differ between deals conducted in hard currencies vs. those conducted in soft currencies. While four of the seven ECAs accept exchange risk for hard currency transactions, none of them are willing to take the exchange risk on soft currency transactions. **Figure 17** details the currencies in which the G-7 may conduct transactions and how they mitigate (or accept) exchange risk.

[1] Unlike Ex-Im Bank, all of the other G-7 ECAs have books of business in currencies other than their domestic currency. This practice effectively eliminates foreign exchange risk.

Figure 17: ECA Willingness to Accept Exchange Rate Risk Information

	Exchange Risk Accepted?		Currencies* of Approved Transactions	
	Hard Currency	Soft Currency	Hard Currency	Soft Currency
EDC	Yes	n/a	USD, EUR, GBP, JPY	none
Coface	No, fix rate at time of default	n/a	USD, JPY	none
Hermes	No, fix rate at time of default, but 10% surcharge lifts cap	No, fix rate at time of default, but 10% surcharge lifts cap	USD, JPY, GBP	none**
SACE	Yes	n/a	USD, JPY	none
NEXI	Yes	n/a	USD, EUR	none
ECGD	Yes	No, convert obligation to Sterling at time of payment	USD, EUR, AUD, JPY, CHF	SND, MYR, HKD***
Ex-Im Bank	No, convert obligation to dollars at time of payment	No, convert obligation to dollars at time of payment	EUR, JPY, CAD, AUD	MXP, ZAR, COP****

* Currency Key: USD – U.S. dollar, EUR – Euro, GBP – Great Britain pounds, JPY – Japanese yen, AUD – Australian dollars, CHF – Swiss francs, SND – Singapore dollars, MYR – Malaysian ringitts, HKD – Honk Kong dollars, MXP – Mexican pesos, ZAR – South African rand, COP – Colombian peso.
** Hermes has signaled a willingness to conduct business in the following currencies on a case-by-case basis: Hong Kong dollars, Indian rupees, Malaysian ringitts, Mexican pesos, Singapore dollars, South African rand, Yuan renminbi, Taiwan dollars, Turkish lira. No deals have been completed yet.
*** ECGD is also cleared to do business in the following currencies: Egyptian pounds, Indian rupees, Mexican pesos, Singaporean dollars, Czech korunas, Polish zlotys, and Thai baht.
**** Ex-Im Bank has also precleared the following currencies: Brazilian real, British pound, CFA franc, Moroccan dirham, New Zealand dollar, Philippine peso, Russian ruble, Swedish krona, and Swiss franc.

Pricing Transactions

For the most part, the G-7 ECAs price foreign currency transactions on a case-by-case basis. One notable exception is Euler-Hermes, which charges a 10% surcharge on foreign currency deals to lift (i.e., “remove”) the foreign exchange cap that Euler-Hermes sets at authorization. (When a deal is being structured, Euler-Hermes explicitly states a foreign exchange limit that mitigates the risk of a currency appreciating after authorization.) Payment of the 10% surcharge effectively transfers the exchange rate risk from the borrower to Euler-Hermes. The surcharge is not required, but almost all borrowers pay it in order to mitigate their exchange rate risk.

Ex-Im Bank does not price foreign currency transactions any differently than those denominated in the U.S. dollar.

Exporter and Lender Survey Results

For the most part, Ex-Im Bank received high marks for its Foreign Currency Guarantee Program. A couple of users familiar with the hard currency program commented that in the case of default, Ex-Im Bank’s practice of converting the debt obligation from the foreign currency to U.S. dollars detracts somewhat from the potential scope of the program's use because only the best/safest deals fit comfortably. As half of the other G-7 ECAs do not require such a conversion on hard currency transactions, there is a modest competitive implication.

Conclusion

Ex-Im Bank is generally competitive with other G-7 ECAs in the overall aspects of its foreign currency program. Ex-Im Bank is most competitive in the breadth of currencies Ex-Im Bank is willing to cover. Most pointedly, Ex-Im Bank is the only G-7 ECA to have covered a soft currency in the last five years. However, as noted by the survey respondents, the Bank's policy to convert defaulted debt obligations into a U.S. dollar amount is a point that continues to modestly detract from Ex-Im Bank's competitiveness.

Chapter 4: Comparison of Major Program Structures
Section E: Ex-Im Bank's Major Program Competitiveness

Ex-Im Bank's major program structures were graded **"A"** which translates into the Bank being generally competitive with its G-7 counterparts. While Ex-Im Bank's aircraft, project finance and foreign currency guarantee programs were rated as competitive with our foreign ECA counterparts, the co-financing was relatively less competitive. **Figure 18** shows how Ex-Im Bank's major programs were rated on individual aspects as well as overall. The grades are based on the survey results and Ex-Im Bank's analysis of how it performs in relation to its G-7 ECA counterparts.

Figure 18: Grading of Ex-Im Bank's Major Program Competitiveness

Key Elements	Grade
Large Aircraft	**A**
Interest Rate Level	A
Percentage of Cover	A
Risk Capacity	A+
Operational Aspects	A-/B+
After Sales Service	C
Market Windows	Negative
Foreign Content	Negative
Project Finance	**A+**
Core Program Features	A+
Repayment Flexibilities	A+
Co-Financing	**B**
Bilateral Agreements	B-/C+
Flexibility in one-off deals	A-
Foreign Currency Guarantee	**A**
Availability of Hard Cover	A
Availability of Soft Cover	A+
Accepts Exchange Rate Risk	B
Pricing	A
Total Average Grade	**A**

Ch. 5 Economic Philosophy and Competitiveness
Section A: Trade-related Tied and Untied Aid

Introduction

The U.S. government has been pursuing OECD disciplines on aid since the 1970s. The U.S. government goal is to limit the trade-distorting impacts of aid by establishing specific rules to which trade-related aid must conform. Accordingly, an OECD agreement to discipline aid that has the greatest potential to be trade distorting (also known as "tied aid" or aid tied to procurement from the donor's country) was agreed in 1992.

The OECD tied aid rules (also known as the "Helsinki Agreement") have helped reduce tied aid to an average of about $3-4 billion annually, from an average of $10 billion a year previously. In 2002-2003, Helsinki-type tied aid had reached its two lowest levels on record of approximately $2.1 and $2.6 billion. In 2004, Helsinki-type tied aid was $3.6 billion (see **Figure 19**). With respect to sector distribution, tied aid business continued to evidence an overall shift away from sectors generally considered to be commercially attractive – like energy and industry. This continued in 2004, with remaining tied aid activity concentrated primarily in the transport and storage sectors (principally rail and water transport), and water and health sectors (both of which tend to be considered commercially non-viable). Hence, recent tied aid activity indicates that the Helsinki Agreement continues to be a major constraint on volumes and the trade-distorting impact of tied aid use.

Nevertheless, as reported in 2003, several foreign tied aid programs continue to maintain a low level of vitality within the OECD disciplines. Some projects supported by these programs continue to contain a significant portion of capital goods that may have commercial implications. Hence, 2004 again illustrates that the Helsinki Agreement has had great success in reducing the level and distortive influence of tied aid, but has not altogether eliminated the financing of some types of capital goods by foreign aid programs.

In light of the success of the tied aid disciplines in reducing the level and likely trade-distorting effects of foreign tied aid, U.S. government concern over the past few years has shifted focus to untied aid flows. The concern began in the middle of the past decade when Japanese untied aid peaked at almost $15 billion per year. The U.S. presented a series of proposals to the OECD geared towards disciplining foreign untied aid offers.

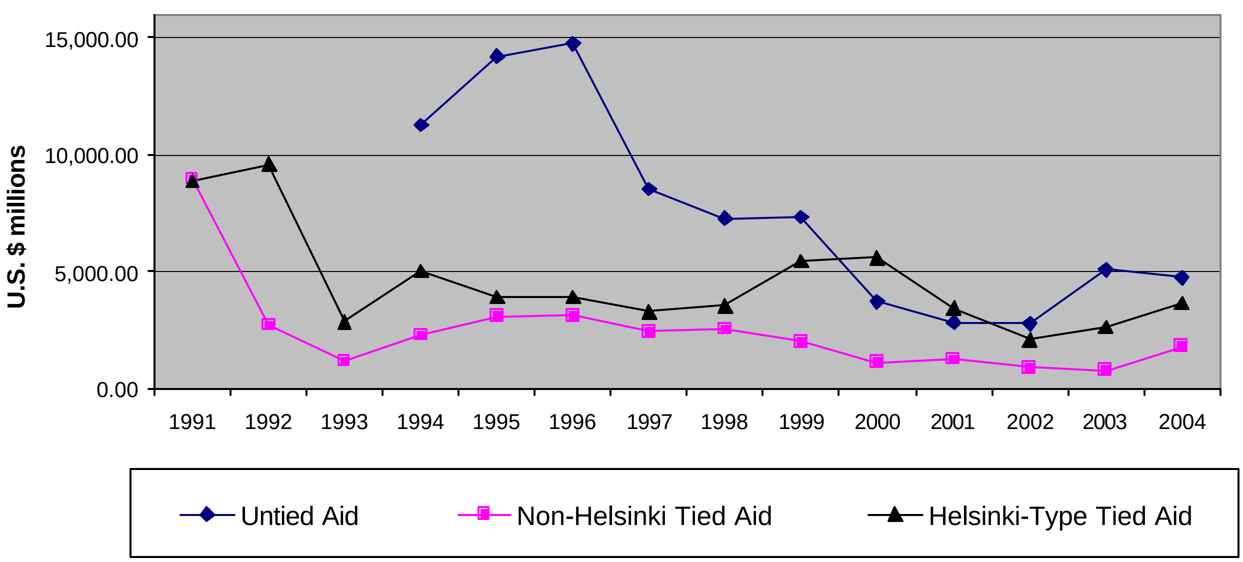
Specifically, since 2000 the U.S. has sought to extend the principles of the tied aid disciplines to untied aid. However, these discussions have met opposition from Japan and the principal untied aid donors of the EU, who claim that untied aid poses no serious threat to free trade. Japan and the EU argue that disciplines for untied aid would only serve to reduce much needed aid to developing countries. Furthermore, the steadily decreasing levels of untied aid over the past decade (which in 2004 was $4.7 billion), driven by reductions in Japan's aid budget, limited an OECD sense of urgency to negotiate rules to discipline untied aid.

In an effort to advance the technical negotiations beyond an OECD stalemate, in 2004 the United States successfully promoted an agreement to enhance transparency of untied aid offers. That is, untied aid donors will make their <u>offers</u> public to allow for competitive international bidding and to report the nationalities of bid winners. The transparency agreement will allow OECD Members to: (1) access information that will help all exporters (not just exporters from donor countries) compete for sales financed with foreign untied aid; and (2) compile any evidence of de facto tying of "untied" aid to procurement from the donor country. Thus, once the transparency agreement is implemented (the technical details are currently being worked out), U.S. exporters will be in a better position to bid on projects financed with foreign untied aid and donors may be under pressure to avoid unfair bid awards.

Data

Despite the increase in tied aid credit activity both in terms of volume and number of notifications in 2004, the data shows that tied aid levels have remained fairly stable since 2000. With respect to recipient countries, tied aid for Vietnam and Indonesia increased significantly in 2004, which led to Vietnam – not China -- becoming the largest recipient country of overall tied aid for the past year. Small or "de minimis" tied aid offers (tied aid offers under approximately $3 million) decreased in 2004 to $134 million, well below the peak of $319 million in 1999. With respect to untied aid flows, as **Figure 19** indicates, in 2004 there was a decrease in the overall volume of untied aid.

Figure 19: Aid Credit Volume by Type



Note: Consistent untied aid data reporting began in 1994.

Definitions[1]

"Helsinki-type" tied aid is subject to three principal disciplines: (1) no tied aid for commercially viable projects; (2) minimum 35% concessionality; and (3) country limitation (no country recipients with a per capita income above $3,035, but the figure may change annually as it is based on annual

[1] See Appendix H for a more detailed list of definitions of the various types of aid.

World Bank lending criteria; see **Appendix H, Annex 1**). OECD Participants determine commercial viability based on the nature of the project, a feasibility study presented by the donor, and, if needed, a "consultations" meeting held to discuss the commercial viability of the project.

"Non-Helsinki-type" tied aid includes: stand-alone *de minimis* projects (valued at less than approximately $3 million), grants or near-grants (at least 80% concessionality) and partial grants (at least 50% concessionality) offered to the poorest countries (the UN declared Least Developed Countries, or LDCs). These types of tied aid offers are normally not considered to have serious trade-distorting effects and, therefore, are exempt from the Helsinki rules regarding commercial viability and the consultations process (although all tied aid is subject to notification requirements). In addition to notification, stand-alone de minimis projects are also subject to minimum concessionality and country eligibility requirements. De minimis tied aid can be trade-distorting but, given its small size, does not typically impact the competitive position of U.S. exporters.

"Untied aid" refers to aid credits that are **not** contractually conditioned upon the purchase of goods and/or services from any particular country. However, trade-distorting implications result when untied aid is "de facto tied" (e.g., through informal understandings) to procurement from the donor's country.

Competitive Situation

During 2004, Ex-Im Bank did not authorize any tied aid use and therefore did not expend any of the $260.5 million in the Tied Aid Capital Projects Fund (TACPF). Given the success of the Helsinki Agreement in strictly limiting trade distortions, the U.S. government TACPF today can focus its use on matching those foreign tied aid offers that leverage ongoing OECD negotiations and enforce current disciplines. Most if not all foreign tied aid offers in 2004 (and in recent years) comply with negotiated disciplines or have a developmental cast, and no new tied aid negotiations are ongoing or imminent. As a result, there was no final authorization of the TACPF in 2004 and only one in the past three years.

U.S. Government and Ex-Im Bank Policy

The U.S. favors aid that represents *bona fide* development assistance. The U.S. thereby only seeks to reduce and ideally eliminate aid that is trade distorting because it:

- Disadvantages U.S. exporters, i.e., redirects business away from U.S. and other suppliers whose products are superior in quality, price, and service.
- Closes markets and misallocates both international and developing country resources. Furthermore, it results in higher contract prices, a capital-intensive development bias, skewed technology choices, and an increased debt burden.

Consistent with long-standing U.S. export financing policy, <u>Ex-Im Bank does not initiate</u> tied aid. Instead, Ex-Im Bank and the U.S. Treasury Department work together to determine whether to <u>match</u> a foreign tied aid offer. The decision to match is made on the basis of largely objective criteria used to determine: (1) whether or not an otherwise OECD-legal tied aid credit will distort commercially-financed trade in favor of donor country firms (rare occurrence in recent years); (2) whether a tied aid match provides negotiating leverage for introducing new disciplines; or (3) is useful for enforcement of existing disciplines. In a special effort to facilitate small business access to competitive financing, the U.S. Government would generally not require multiplier criteria to match de minimus tied aid offers for commercially viable projects.

Responding to U.S. exporters' demands for a U.S. Government response to foreign governments' use of concessional financing for development-related capital projects, in 2002 Trade Promotion Coordinating Committee (TPCC) advocacy led to the introduction of a U.S. government mixed credit concept. The idea is to combine grants from the U.S. Agency for International Development (USAID) with Ex-Im Bank standard export credit financing for development-related projects that are identified as priorities by USAID and consistent with the OECD tied aid rules. (When combined, the two funding sources create a tied aid credit.) USAID and Ex-Im Bank have identified an inaugural project to test the mixed credit concept, but it has been put on hold due to shifting priorities resulting from U.S. Government efforts to respond to the tsunami disaster in Asia.

Exporter and Lender Survey Results

Most of the respondents were not familiar with tied aid offers from foreign ECAs or the U.S.. However, the few that had encountered foreign tied aid reported losing sales to their competitors in a variety of sectors including renewable energy, water and agriculture equipment sales (particularly in China). These losses resulted in these respondents rating Ex-Im Bank's tied aid program as having a negative impact on U.S. exporter competitiveness.[2]

Conclusion

The competitive environment today is one in which volumes of both tied aid and untied aid have dropped significantly over the past decade, then stabilized. With respect to tied aid, several of the G-7 and non-G-7 OECD Members have modest aid programs that initiate tied aid and operate with vitality within the international disciplines that were set forth in the OECD tied aid rules. The success of the tied aid rules and diminished need for use of TACPF to match foreign offers is consistent with overarching U.S. trade policy (although unsatisfactory from the view of some U.S. exporters). With respect to untied aid, in 2004, OECD Members agreed to a transparency structure intended to level the playing field among exporters seeking to bid on projects financed with untied aid. Although untied aid levels decreased in 2004, the U.S. government believes that untied aid transparency will help ensure that untied aid is developmentally focused and available for the purchase of goods from any market.

[2] An agreement was reached in April of 2005 that will extend terms for renewable energy and water to 15 years. This agreement may lead to reduction in the number of commercially non-viable tied aid transactions for these sectors and may increase the competitiveness of U.S. exporters.

Chapter 5: Economic Philosophy and Competitiveness
Section B: Market Windows

Introduction

Market windows are government-owned institutions that claim to offer export credits on market terms and therefore are not required to apply Arrangement rules, although these institutions may also manage an "official window" that offers Arrangement terms for riskier transactions. While they may operate on a profit-maximizing basis, market windows have traditionally received government benefits that are not available to commercial banks. These benefits include implicit or explicit government guarantees, tax exemptions and equity capital provided by the government. In addition, these institutions condition support on national benefit, which typically involves some portion of domestic content. Without being subject to the Arrangement constraints of an official ECA or the market limitations of a true commercial bank, market windows pose a potential competitive challenge to both. As the Arrangement has increasingly codified export credit rules over the last decade, market windows' ability to offer flexible terms – such as longer repayment periods or cash payment financing – has enabled them to provide financing on terms that official ECAs may not offer. Should U.S. exporters not find terms in the market for a specific buyer at a specific time similar to those available from a market window entity, the playing field would be tilted in favor of foreign competitors with access to market window financing.

Market window institutions have avoided disciplines in the OECD for years because there has never been an empirical case made of specific harm (due, at least in some part, to lack of functional transparency). In addition, there has been little pressure for the United States to pursue such disciplines in recent years. U.S. exporters, some of which now benefit from market window financing (either through a foreign subsidiary or due to a foreign component), have provided no recent evidence of competitive harm from these institutions.

Ex-Im Bank Policy and Practice

Ex-Im Bank does not operate a market window. All of Ex-Im Bank's medium- and long-term transactions comply with the terms and conditions of the Arrangement. In its re-authorization in 2002, however, Ex-Im Bank was given permission by the Congress to match the terms and conditions offered by market windows, regardless of whether such terms are consistent with the Arrangement and even if the market window does not provide sufficient information for Ex-Im Bank to exactly match the terms of financing. Ex-Im Bank's matching authority has not yet been used because there have been no cases where U.S. exporters have sought matching because of their inability to obtain similar financing terms after facing market window competition.

G-7 ECAs' Policies and Practices

Only two of the G-7 countries provide market window support: Canada through EDC and Germany through KfW. It is important to note that other G-7 ECAs (particularly Japan) could become market window players should they perceive a competitive advantage to doing so.

Moreover, a variety of forces (e.g., WTO panel decisions and domestic imperatives to make a profit) create incentives for ECAs to act like market windows by, for example, increasing activity in developed markets with significant private banking capacity and charging "market" prices. However, the recent action by the EU to impose market disciplines on KfW may act as a counterforce to the incentives to create market windows.

However the future evolves, today there are only two formal market windows. The rest of this chapter addresses recent activities and changes in these two institutions.

EDC

Export Development Canada (EDC) is a Canadian crown corporation that operates on private commercial bank principles (i.e., seeks to maximize profits) while providing export credits for Canadian exporters. EDC also operates Canada's official ECA and allocates business between its official and market windows without effective transparency. By dollar volume, the majority of EDC's business is in high-income countries; in 2004, 70% of EDC's medium- and long-term business went to North America and Europe. Of the markets where EDC would be more likely to compete with Ex-Im Bank, Latin America is the largest, comprising 15% of EDC's activity.

By transaction numbers, however, the picture looks very different. In 2004, one third of EDC's export credit transactions were offered in markets outside the United States and Europe, most of which were in Latin America. In most cases, it is not possible to determine whether or not these transactions were offered through EDC's market window or its official window. Following is a list of non-OECD markets where EDC offered export credit financing in 2004:

Asia/Pacific	China, India, Kazakhstan, Korea, New Zealand, Philippines, Taiwan, Tonga, Turkey
Africa	Nigeria, Senegal, South Africa, Zambia
Eastern Europe	Czech Republic, Poland, Russia
Latin America/ Caribbean	Argentina, Bahamas, Bolivia, Brazil, Cayman Islands, Chile, Dominican Republic, Ecuador, Honduras, Jamaica, Mexico (45 deals), Peru, Trinidad & Tobago, Venezuela
Middle East	Egypt, Iran, Saudi Arabia, United Arab Emirates

With the decline of the telecom sector and the continuing downturn in U.S. airlines, EDC's total export finance business has become more concentrated in other industries. As recently as 2001, telecommunications comprised nearly one-third of EDC's business, but in 2004 the sector comprised only 7% of EDC's medium- and long-term business. In 2004, mining and infrastructure accounted for 36% of EDC's new medium- and long-term business volumes, followed by 24% for energy; aerospace represented only 9% of the total new business volume.

In the recent past, Ex-Im Bank estimates that approximately 90% of EDC's medium- and long-term export credit business has been offered through its market window, although the percentage may vary from year to year. Applying the general ratio to EDC's medium- and long-term activity over the last five years yields the following **Figure 20**:

Figure 20: EDC Medium- and Long-Term Activity 2000-2004 ($Bn)

	2000	2001	2002	2003	2004
MLT export credits	$4.7	$11.1	$10.1	$9.5	$10.0
Market window	$4.2	$10.0	$9.1	$8.6	$9.0
Official window	$0.5	$1.1	$1.0	$0.9	$1.0

KfW

KfW Bankengruppe is a multi-purpose financial institution that is owned by the German government (80%) and the federal states (20%). Founded shortly after World War II to support Germany's reconstruction, KfW continues to promote the growth of the German economy in a variety of ways, primarily focusing on domestic investment such as housing finance and support to small businesses. Historically, from 10% to 25% of KfW's annual financing activity falls under the category "export credits and project finance," which includes export credits as well as corporate finance and investment guarantees both inside and outside Germany.

Concern that Germany's state banking system (of which KfW is a part) was putting European commercial banks at a competitive disadvantage led to an investigation by the European Commission. In 2002, as part of a settlement with the Commission, Germany agreed to separate KfW's economic support activities from its commercial business. Starting in 2004, KfW began conducting much of its export credit and project finance activity through KfW IPEX-Bank, a newly-created, 100% KfW-owned, arms-length subsidiary. IPEX-Bank will be subject to taxation and German banking regulations, and it must earn a risk-adjusted return on capital (RAROC) of 13%. Currently, that 13% RAROC is judged against IPEX-Bank's hypothetical funding costs with a risk rating of AA- or A+. It will support exports from Europe, not just Germany, and will build its ability to lead syndicated underwritings. It anticipates doing EUR8-10 billion of total business volume annually. Until 2008, IPEX-Bank will operate as a "bank-in-a-bank," i.e., an independent unit of KfW Bankengruppe.

Half of IPEX-Bank's $14.8 billion business volume in 2004 consisted of commitments outside Germany. Of the commitments outside Germany, approximately 40%, or nearly $3 billion, was export credit business. Approximately half of IPEX-Bank's export credit support was provided for transactions bound for Europe or North America. The three largest sectors receiving IPEX-Bank export credit support were ships (28%), basic industries (25%) and aircraft (24%).

IPEX-Bank's export credit business includes transactions booked on its own account as well as transactions on KfW's accounts, although both types of transactions must meet KfW's 13% RAROC requirement. If a transaction meets one or more of the following criteria, it will be placed on KfW's books, although it will be administered through IPEX-Bank: 1) a fixed rate loan priced at CIRR; 2) co-financing with a multilateral development bank; or, most commonly, 3) a buyer in a country with an OECD risk category of 5 through 7. Approximately 40% of IPEX-Bank's export credit transactions in 2004 met those criteria and were placed on KfW's books.

IPEX-Bank's export credit business is provided both on Arrangement terms, with official export credit insurance coverage by Hermes, and on market window terms. The market window support is considered exempt from OECD rules. In 2004, approximately 60% of IPEX-Bank's total export credit support was provided without official ECA cover, although some of these transactions may also comply with the Arrangement. That ratio differed significantly between the IPEX-Bank "book" business, with 75% provided without official ECA cover, and the KfW "book" business, with only 40% provided without official ECA cover.

Figure 21 below provides a breakdown between the market window and official window support provided by IPEX-Bank in 2004 and compares it with the equivalent support provided by KfW prior to the creation of IPEX-Bank.

Figure 21: KfW/IPEX Medium- and Long-Term Activity 2000-2004 ($Bn)

	2000	2001	2002	2003	2004*
MLT export credits	$6.1	$5.6	$3.3	$2.0	$3.0
Market window	$4.0	$3.7	$2.1	$1.3	$1.8
Official window	$2.1	$1.9	$1.2	$0.7	$1.2

*Only reflects IPEX-Bank business and does not include business provided on KfW's account

Summary Data

Combining the two estimates for EDC and KfW yields an average total market window volume in the neighborhood of $12 billion per year over the last five years (see **Figure 22**). The majority, by dollar volume, is destined for the United States and Western Europe. However, there is a segment of some $1 to $2 billion per year in market window activity in middle to upper tier LDCs (especially in project finance). This estimated volume is the area of the potentially greatest impact on Ex-Im Bank's competitiveness as measured in this report.

Figure 22: Market Window Activity 2000-2004 ($Bn)

	2000	2001	2002	2003	2004
EDC	$4.2	$10.0	$9.1	$8.6	$9.0
KfW	$4.0	$3.7	$2.1	$1.3	$1.8
Total	$8.2	$13.7	$11.2	$9.9	$10.8

Exporter and Lender Views

Most of the respondents to the survey had little to no knowledge of market windows. However, lenders and exporters who were aware of this practice indicated that the use of market window support by a foreign competitor places a U.S. exporter at a competitive disadvantage. Some U.S. exporters are beneficiaries of market window financing due to their overseas production facilities and are therefore reluctant to comment negatively or to provide information about these institutions' support. These exporters noted that the market window providers – EDC and KfW – make concerted efforts to encourage sourcing from their respective countries with the availability of market window financing as a lure. Thus, while the Congressional authority to match market windows is viewed as a positive step to combat this type of support, Ex-Im Bank's ability to use this authority has been constrained by the lack of evidence.

Conclusion

With the restructuring of KfW's export and project finance business and a drop in EDC's key sectors of telecommunications and aircraft, 2004 was a transitional period for market window institutions. As a result, there were no significant discussions of transparency and disciplines for market window institutions at the OECD, nor have U.S. exporters highlighted competition from such institutions for Ex-Im Bank's attention. Nonetheless, the potential competitive threat means that market windows may have a negative impact on Ex-Im Bank's overall competitiveness.

Chapter 5: Economic Philosophy and Competitiveness
Section C: U.S. Philosophy and Ex-Im Bank Competitiveness

The U.S. government philosophy regarding official export credit activity is that ECAs should be able to compete on a level playing field, should not compete with the private sector, and should operate at a minimum cost to the taxpayer. These parameters define a framework within which Ex-Im Bank offers export credit support to U.S. exporters. The United States has worked very hard at ensuring this framework and principles are adopted by our official ECA counterparts within the OECD and are accurately and fully depicted in the OECD Arrangement. For the most part, the competitiveness issues necessary to form the basis of a level playing field are in place. However, there are a few areas in which several ECAs do not share the same philosophical approach and, in practice, do not abide by the spirit of a level playing field. These areas are "de facto tied" untied aid, tied aid and market windows. When any of these forms of financing are present in an individual transaction, they can have an adverse effect on the competitiveness of Ex-Im Bank and the U.S. exporter. **Figure 23** shows the span of impact that these financing features are likely to have on Ex-Im Bank's competitiveness on individual cases when similar terms and conditions are not available to U.S. exporters.

During 2004, it has been difficult to document the existence of any "de facto tied" untied aid or instances when market windows have undercut both the market and ECAs, due to the lack of transparency associated with these forms of support. However, some anecdotal evidence from the exporting community suggests that "de facto tied" untied aid and market windows impacted at least a limited number of transactions. The U.S. exporting community continues to believe that when U.S. exporters face any one of these forms of financing (the details of which are next to impossible to obtain or criteria are difficult to meet), their competitive position can be undermined.

Figure 23: Grading of Ex-Im Bank's Competitiveness When Confronted with Differing Government Financing Philosophies and Programs

Program	Ex-Im Bank has program (Yes/No)	Potential Impact on Competitiveness
Tied Aid (direct or "de facto")	Yes*	Negative (infrequently encountered)
Market Windows	No**	Neutral to negative (infrequently encountered)
Overall Assessment		**Negative (on what appears to be a very limited number of transactions)**

* Ex-Im Bank could use TACPF to match "de facto tied" untied aid

** In Ex-Im's 2002 Charter Reauthorization, Ex-Im Bank was granted the authority to provide financing terms that are inconsistent with the Arrangement when a market window is providing such terms that are better than those available from private financial markets.

Chapter 6: Public Policies – Stakeholder Considerations
Section A: Introduction

Ex-Im Bank is the official export credit agency of the U.S. government. In this role, Congress has given the Bank a mission to provide export financing assistance to the U.S. exporting community that is competitive with, and serves to neutralize, financing offered by the major foreign government ECAs. The basis for this mission is that government intervention is in the national interest when necessary to ensure that purchase decisions are made on the basis of market factors such as price, quality and service.

As a U.S. government institution, Ex-Im Bank is entrusted with public funds to carry out its mission. As such, Ex-Im Bank is expected to consider broader U.S. policies in how it carries out its core mission of providing export finance to U.S. exporters. Sometimes these broader U.S. policy objectives conflict with the Bank's main objective, and thus may impact its competitiveness. Some of these other policy objectives are specified in Ex-Im Bank's Charter or other legislation (e.g., economic impact and PR 17 on U.S. shipping). Other issues, such as content requirements, reflect the intent of Congress regarding the support of U.S. jobs and attempts to balance U.S. labor and industry interests. The impact of these other policy objectives on Ex-Im Bank's competitiveness can be magnified in specific cases because, in general, other G-7 ECAs have few such broad public policy considerations, with the exception of domestic content guidelines.

The following sections of this chapter present a contextual description of selected public policies and an analysis of the competitive implications related to each issue.

Chapter 6: Public Policies – Stakeholder Considerations
Section B: Economic Impact

Introduction

Economic impact refers to the Congressional mandate for Ex-Im Bank to assess whether Ex-Im Bank support for a transaction would likely cause substantial injury to U.S. industry or would result in the production of a good that is subject to a relevant trade measure.[1] Transactions that lead to either of these outcomes may be denied Ex-Im Bank support. Ex-Im Bank's economic impact procedures are designed to ensure that all of the transactions the Bank supports meet this Congressional mandate. While all cases seeking Ex-Im Bank support are screened for economic impact, only cases that include capital equipment transactions that enable foreign buyers to establish or expand production capacity of an exportable good are subject to more detailed analysis.

Ex-Im Bank's Policy and Practice

The requirement to consider the adverse economic impact of transactions was first incorporated into Ex-Im Bank's Charter in 1968 and has been subsequently modified seven times (the most recent change to the economic impact section of Ex-Im Bank's Charter occurred in June 2002). Ex-Im Bank's Charter requires Ex-Im Bank to assess whether the extension of its financing support would:

- Result in the production of substantially the same product that is the subject of specified trade measures (i.e., transactions resulting in the production of a good subject to an anti-dumping (AD) or countervailing duty (CVD) order, a Section 201 injury determination under the Trade Act of 1974 or a suspension agreement from an AD/CVD investigations); or

- Pose the risk of substantial injury to the U.S. economy. Pursuant to Ex-Im Bank's Charter, the standard for substantial injury is met if the foreign production capacity established or expanded by Ex-Im Bank financing equals or exceeds 1% of U.S. production. Transactions over $10 million that meet the substantial injury standard require a detailed economic impact analysis in which Ex-Im Bank staff analyses the global supply and demand situation of the product in question, and assesses the broad competitive impacts on U.S. industry arising from the new foreign production (e.g., whether U.S. production could be directly or indirectly displaced as a result of the new foreign production).

If a transaction meets these legislatively specified standards, then economic impact can be the basis for denial of Ex-Im Bank support. However, the economic impact legislation provides that the economic impact prohibition will not apply in any case where the Ex-Im Bank Board of Directors determines that the benefits of the transaction outweigh the costs.

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[1] The relevant trade measures are: anti-dumping (AD) or countervailing duty (CVD) orders; Section 201 injury determinations under the Trade Act of 1974; and suspension agreements from an AD/CVD investigations.

G-7 ECAs' Policies and Practices

Ex-Im Bank's economic impact policy is unique with respect to the other G-7 ECAs. Several ECAs have a broad mandate that the transactions they support should benefit their domestic economies. However, only Ex-Im Bank weighs the potential negative economic impacts of its support against the benefits and considers the relevance of trade measures to a transaction, both of which could result in the denial of support. As a consequence, a negative economic impact finding may result in processing delays and carries the real risk of denial. Moreover, Ex-Im Bank's economic impact mandate has operational consequences since Ex-Im Bank must dedicate staff and other resources to the issue.

Summary Data

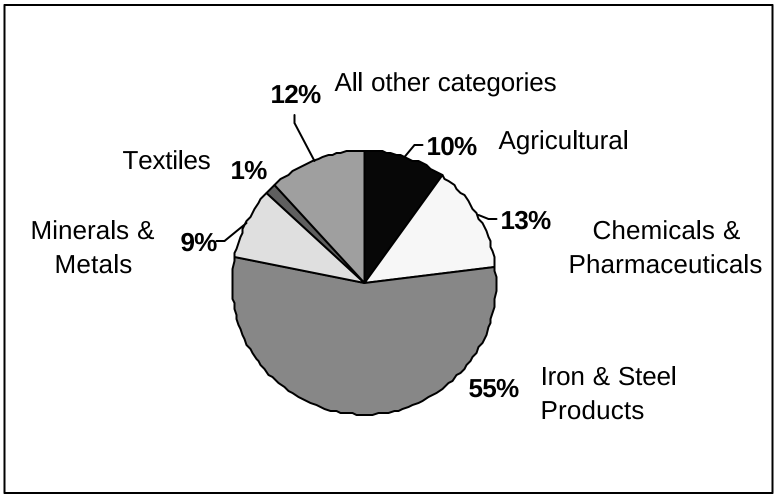
In 2004, Ex-Im Bank acted on 784 medium-term insurance and medium- and long-term loan and guarantee transactions. Of these transactions, 255 were applications for loans and guarantees at the Preliminary Commitment (PC) and Final Commitment (AP) stages, and 529 were applications for medium-term insurance. Roughly 39% (303 cases) of total transactions acted upon were reviewed for economic impact relevance because they supported a foreign buyer's production of an exportable good.

Of these 303 transactions, four required a detailed economic impact analysis. Three of the analyses yielded a net positive economic impact outcome and were subsequently approved by the Board of Directors. The other transaction that required a detailed economic impact analysis was not approved.. Ex-Im Bank staff also conducted a detailed economic impact analysis for an additional long-term transaction, which was eventually withdrawn before the case came to fruition. The remaining 299 transactions were subject to a post-authorization review to ensure that there were no aggregations of more than $10 million to a single buyer that would have required a detailed economic impact analysis.

The economic impact policy has both direct and indirect effects on the flow of transactions into Ex-Im Bank. The direct effect is apparent, for example, when a transaction is not pursued after the applicant learns of the existence of a relevant applicable trade measure. Because the economic impact policy prohibits Ex-Im Bank from supporting any transactions that would result in the production of a good subject to a relevant trade measure, applicants did not pursue Ex-Im Bank financing for approximately 15 potential transactions after learning about the existence of an applicable trade measure. Of these 15 potential transactions, nine (or 60%) involved the export of steelmaking equipment, which is consistent with the fact that iron and steel products account for over half of all current AD/CVD orders (see **Figure 24**). A review of G-7 ECA data show that other G-7 members do not have such prohibitions, and supported approximately $225 million worth of steelmaking machinery exports during 2004.

The indirect effect on the flow of transactions into Ex-Im Bank, which is more difficult to measure, occurs in situations where applicants were dissuaded from seeking Ex-Im Bank support out of concern that their transaction could be subject to long processing times and/or an uncertain outcome as a consequence of the economic impact analysis. Ex-Im Bank does not have any data on the incidence of transactions affected by this concern; accordingly, it is difficult to measure the size and scope of this indirect effect.

Figure 24: Anti-dumping and Countervailing Duty Orders by Sector, 2004



Exporter and Lender Survey Results

Several respondents to the survey observed that the economic impact policy adversely affects Ex-Im Bank's competitiveness. Some expressed concern that external opposition to Ex-Im Bank support for transactions has impacted the outcome of certain cases. Also, some respondents noted that the economic impact policy could add significant time to case processing. Still, others complimented Ex-Im Bank on its efficiency in processing transactions where the economic impact policy was applicable.

Conclusion

No other G-7 ECA has a similar requirement to review transactions for trade measures and potential injury to the domestic economy as does Ex-Im Bank. Still, the policy affected only 10-20% of medium- and long-term activity by creating the risk of denial or by increasing case processing time. However, informal discussions between Ex-Im Bank staff and potential applicants show that some transactions never came to fruition because of the existence of the economic impact policy. As a whole, the economic impact element, when it arises, can have a negative impact on Ex-Im Bank's competitiveness, leaving Ex-Im Bank a notch below the typical G-7 ECA.

Ch. 6: Public Policies – Stakeholder Considerations
Section C: Foreign Content

Introduction

Foreign content is the portion of the export that originates outside of the seller and the buyer's countries. For example, a $10 million U.S. export contract may include a $1.5 million component sourced from a third country. The foreign content is the $1.5 million portion of the export. The U.S. content is the $8.5 million portion of the export that originates in the United States.

Ex-Im Bank's Policy and Practice

In keeping with Ex-Im Bank's objective of maintaining or supporting U.S. employment through the financing of U.S. exports, Ex-Im Bank has adopted a foreign content policy to ensure that its export financing targets the U.S. content associated with goods and services exported from the United States. To accommodate U.S. export contracts that contain goods and services that are not entirely U.S.-produced, Ex-Im Bank's policy allows inclusion of some foreign content within the U.S. export contract with certain restrictions and limitations. Although Ex-Im Bank's foreign content policy derives from its Charter, there are no specific statutory requirements *per se* relating to non-U.S. content. Rather, the policy reflects a concerted attempt to balance the interests of the users and suppliers of U.S. jobs.

For all medium- and long-term transactions, Ex-Im Bank's foreign content policy *restricts* the scope of its financial support to cover only those products that are shipped from the United States to a foreign buyer, and then it *limits* the level of its support to the **lesser of**: (1) 85% of the value of all eligible goods and services contained within a U.S. supply contract; or (2) 100% of the U.S. content of that export contract.

G-7 ECAs' Policies and Practices

In general, all export credit agencies have designed their programs in such a way as to maximize the national benefit for their respective activities. However, the context for evaluating domestic impact varies widely and has led to very different ECA content policies.

OECD Participants recognize that each country has developed its content policy to further unique domestic policy goals. Hence, the OECD Participants have not pursued common ECA rules on foreign content, and there are no OECD Arrangement guidelines governing the scope or design of foreign content in an officially supported export credit. Thus, given the vastly different sizes of the G-7 economies and their respective views of national interest, it is not surprising that foreign content policies vary widely and substantially.

Figure 25: ECA Foreign Content Support – Comparison of Policy Parameters

	Ex-Im Bank	EDC (Canada)	European ECAs	JBIC & NEXI (Japan)
Application of the Policy	In aggregate[1]	In aggregate	In aggregate	In aggregate
Requirement to ship foreign content from ECA's country?	Yes	No	No	No
Policy Implications if foreign content exceeds 15%	Cover reduced	Decided on a case-by-case basis	Decided on a case-by-case basis* *Cover is not reduced for transactions that include up to 30-40% EU content	Decided on a case-by-case basis* *Cover is not reduced for transactions that include up to 70% foreign content
Minimum amount of domestic content	No minimum threshold	If domestic content is less than 50%, coverage terms are set on a case-by-case basis	Generally, domestic content must be at least: (i) 85-90% in the case of non-EU foreign content; and (ii) 60-70% in the case of EU foreign content	If domestic (made by Japan) content is less than 30%, coverage terms are set on a case-by-case basis

Figure 25 compares the main aspects of the content policies of the G-7 ECAs in 2004. The data illustrate that Ex-Im Bank's content requirements are far more restrictive than Canada's and Japan's, but are not so different overall than those of its European counterparts (considering the EU as a whole). The following two points regarding competitor ECA practices and policies should be noted:

[1] "In aggregate" means that Ex-Im Bank applies foreign content percentages on the aggregate supply contract rather than on each item in the supply contract. This flexibility allows items with little or no foreign content to offset items with relatively large amounts of foreign content.

- Most ECA policies are not transparent. In practice, ECAs are not always willing to provide the maximum amount of support for foreign content, particularly in the higher risk markets where ECAs generally have country exposure limits.

- Ex-Im Bank does not have a required minimum level of domestic content for an export contract to be eligible for support, while European ECAs require 60%-90% domestic or EU content. Nevertheless, **Figure 25** shows that although Ex-Im Bank's implementation procedures appear to be generally competitive with the Europeans, the requirement that the foreign content be shipped from the United States is a constraint unique to Ex-Im Bank.

In 2004, the Italian ECA, SACE, announced its intention to adopt a more flexible content policy approach by shifting from a "Made in Italy" approach to a "Made by Italy" approach. In the past, the "Made in Italy" approach allowed only products manufactured in Italy to be treated as eligible national content. The new "Made by Italy" approach allows products manufactured by Italian companies located outside of Italy to qualify as eligible national content. This approach is similar to the longstanding "Made by Japan" philosophy, and recent information indicates that the European G-7 and other OECD countries are also steadily moving to the "made by" approach. As this trend becomes more fully developed, Ex-Im Bank's foreign content policy could lose competitiveness against other ECAs.

The year 2004 also marked the accession of 10 new countries to the European Union. This expansion is significant for European ECAs given that that the content policy of each ECA in the EU treats goods from within the EU as eligible national content for up to 30-40% of the total contract amount. With a "larger by 10" EU, the national content flexibility of four of the G-7 has been extended even further.

Summary Data

As shown below in **Figure 26**, of all Ex-Im Bank transactions that contained foreign content (which represent 39% of all Ex-Im Bank transactions), the average percent of foreign content per transaction generally stayed within the 10-12% range for the last five years. However, the export value (as a percentage) for transactions containing foreign content remains significant due to the prevalence of large aircraft activity, which constituted approximately 50% of Ex-Im Bank's medium- and long-term activity. Large aircraft transactions are typically high dollar value and include, on average, 13% eligible foreign content. Conversely, smaller value transactions tend to include smaller percentages (e.g. under 10%) of foreign content. Approximately 60% of the total number of transactions supported by Ex-Im Bank contained no foreign content.

Figure 26: Recent Trends in Ex-Im Bank Support for Medium- and Long-Term Activity Containing Foreign Content*

	Authorizations	2000	2001	2002	2003	2004
Total activity	**Export value ($MM)**	$9,455	$7,109	$8,212	$8,386	$8,935
	Number of transactions	267	227	222	232	241
Transactions containing foreign content	**Export value ($MM)**	$7,759	$5,757	$7,842	$7,823	$7,821
	Percentage of total value	82%	81%	95%	93%	88%
	Number of transactions	100	80	96	85	95
	Percentage of total number	37%	35%	43%	37%	39%
Foreign content	**Volume ($MM)**	$805	$631	$836	$814	$904
	Average per transaction	10%	11%	11%	11%	12%

*These figures exclude medium-term insurance because the information is not readily available.

Appendix G provides a more detailed listing of foreign content contained in Ex-Im Bank's medium- and long-term transactions in 2004 at the time of authorization.

Exporter and Lender Survey Results

Several exporters commented that Ex-Im Bank's content policy could be more flexible to accommodate increased levels of foreign content because more and more U.S companies are sourcing materials from abroad. One exporter felt that Ex-Im Bank was not as competitive as the Japanese, Canadian, and European ECAs, which allow direct financing of foreign content. Other exporters felt that Ex-Im Bank should consider the "Made by" versus "Made in" approach to foreign content. Overall, survey results revealed that Ex-Im Bank's foreign content policy could have a negative impact on Ex-Im Bank's competitiveness.

Conclusion

Ex-Im Bank's approach to foreign content appears to be more transparent and predictable than the approaches taken by our G-7 counterparts. Moreover, Ex-Im Bank's approach is viewed as more competitive in 2004 than before the 2001 changes, which rendered Ex-Im Bank's foreign content policy more flexible by applying foreign content percentages on the aggregate supply contract rather than on each item thereby allowing items with little foreign content to offset items with relatively large foreign content on a U.S supply contract. On the other hand, the other G-7 ECAs have increasingly shown more flexibility and are allowing a broader band within which they permit foreign content to be included. This is becoming more pervasive as ECAs loosen their approach to content requirements and as the EU expands. Consequently, Ex-Im Bank's foreign content policy could result in a negative impact on Ex-Im Bank's competitiveness.

Ch. 6: Public Policies – Stakeholder Considerations
Section D: Local Costs

Introduction

Local costs are goods and services originated or manufactured in the buyer's country. Local costs are historically related to goods and services that, from a practical perspective, would not be sourced from the U.S. (e.g. cement, construction workers, etc.). In contrast to foreign content, the OECD Arrangement sets the basic parameters on official local cost support. The OECD parameters allow ECAs to provide support for local costs up to the amount of the down payment, which according to OECD Arrangement rules is at least 15%.

Ex-Im Bank's Policy and Practice

When Ex-Im Bank provides medium- or long-term guarantee, loan or insurance support for U.S. exports, it may also provide up to 15% of the value of the U.S. exports (including eligible foreign content) for locally originated or manufactured goods and services. Ex-Im Bank's local cost policy reflects the premise that there is some amount of local labor and raw materials necessary to efficiently build or assemble the end product of the U.S. export.

For medium-term transactions, Ex-Im Bank may provide local cost support as long as the local costs are related to the U.S. exporter's scope of work and the U.S. exporter can demonstrate either: (1) the availability of local cost support from a competitor ECA; or (2) that private market financing of local costs is difficult to obtain for the transaction.

For long-term transactions, automatic local cost support is generally available provided the local costs are related to the U.S. exporter's scope of work. Automatic local cost support is also available for all environmentally beneficial exports, the engineering multiplier program, medical equipment exports, and exports of products related to transportation security projects (also known as the Transportation Security Export Program), regardless of term.

For project finance transactions only, the local costs need not be related to the U.S. exporter's scope of work, although the local costs must be beneficial to the project.

G-7 ECAs' Policies and Practices

All G-7 ECAs adhere to the basic local cost parameters set forth in the OECD Arrangement. That is, ECAs may provide support for local costs related to officially supported export transactions up to the amount of the down payment, which is typically 15%. In fact, most major ECAs only provide local cost financing when necessary because their country exposure limits constrain their ability to assume additional risk. As a result, many ECAs require that local costs be explicitly included in the scope of the exporter's contract (except in the case of project finance).

In another reflection of an increasingly globalized world, there is increasing interest among some ECAs (especially smaller ECAs) and exporters in enlarging the scope of official local cost support. Just as with foreign content, exporting country "benefits" can be identified in evermore cases of local costs and a majority of OECD ECAs recently responded to a Berne Union survey with an interest in expanding local cost capacity.

Summary Data

Figure 27 illustrates recent trends in Ex-Im Bank's support of local costs. Since the Bank's 2001 local cost policy revisions allowing greater flexibility for local cost support, there has been an overall increase in Ex-Im Bank support of local costs. The increase (from 18 transactions in 2000 to 79 in 2004) may be attributed to the fact that the revised procedures provided more small and medium-sized U.S. exporters with greater certainty that local costs support would generally be available. Although the dollar volume of local costs dipped in 2003, the dollar volume more than doubled from 2003 to 2004 and surpassed historical levels. The increase may be the result of applicants requesting the maximum local cost support in 2004.

In 2004, three-quarters of local cost financing supported installation costs, on-site construction, and labor costs. These are precisely the types of local costs that Ex-Im Bank envisioned would benefit most from local cost support. The remaining one-quarter was generally comprised of import duties and value-added taxes.

Figure 27: Recent Trends in Ex-Im Bank Local Costs Support

	Authorizations	2000	2001	2002	2003	2004
Total medium- and long-term activity	Export value ($MM)	$9,503	$7,417	$8,554	$8,873	$10,949
	Number of transactions	614	494	525	569	757
Medium- and long-term activity containing local costs	Number of transactions	18	17	33	57	79
	Percentage of total number of transactions	3%	3%	6%	10%	10%
Local costs	Volume ($MM)	$183	$200	$184	$123	$312
	Percentage of total medium- and long-term activity	2%	3%	2%	1%	3%

Exporter and Lender Survey Results

Exporters found that the more flexible local cost policy was helpful, and they would like to see the local cost policy expanded even further. Lenders commented that Ex-Im Bank's local cost policy should be uniform for all medium- and long-term transactions and thought a "one size fits all" local cost policy would improve competitiveness. Overall, however, the export community rated Ex-Im Bank's local cost policy as competitive.

Conclusion

Based on both comparative information regarding our G-7 ECA counterparts' current practice and on the exporting community's actual experience with Ex-Im Bank's local cost policy, Ex-Im Bank is considered to be competitive in its local costs support.

Chapter 6: Public Policies – Stakeholder Considerations
Section E: U.S. Shipping Requirements

Introduction

In accordance with policies implementing Public Resolution No. 17 (PR 17) of the 73rd Congress, certain ocean-borne cargo financed by loans or credit guarantees from a U.S. government entity, such as Ex-Im Bank, must be transported on U.S. flag vessels, unless a waiver of this requirement is obtained from the U.S. Maritime Administration (MARAD). Exports financed through Ex-Im Bank's direct loan and long-term guarantee programs are subject to the U.S. flag vessel requirement.

The stated goal of PR-17 and other cargo preference legislation is to support the continued viability of the U.S.-flagged commercial fleet, which among other things, serves as an essential national security asset during times of war or national emergency. However, from the perspective of U.S. exporters, cargo preference requirements can make U.S. exports less competitive vis-a-vis foreign competitors, since foreign competitors have no similar requirements and U.S.-flagged shippers generally charge higher rates than their competitors.

Policy and Practice

In October 2004, Ex-Im Bank and MARAD negotiated a new Memorandum of Understanding on PR-17 shipping requirements that raised the threshold for the application of the requirement to Ex-Im Bank's guarantee program from $10 million to $20 million. The Memorandum went into effect on October 26, 2004.

> For transactions that are greater than $20 million or are of terms greater than 7 years, exporters are still required to follow the traditional process. Specifically, exporters are responsible for ensuring that they comply with Ex-Im Bank policy implementing PR 17. Pursuant to PR 17, upon request, MARAD may waive the U.S. flag vessel requirement on a case-by-case basis.

If a waiver is obtained, Ex-Im Bank may provide financing for goods shipped on vessels of non-U.S. registry. Since 2001 100% of all waivers requested have been approved; except in the category of Statutory Waivers, which has a 90% approval rate. Statutory waivers may be granted if MARAD determines that a U.S.-flagged vessel will not be available within a reasonable amount of time or at a reasonable rate.

G-7 ECAs' Policies and Practices

None of the other G-7 ECAs have similar cargo preference restrictions.

Summary Data

Figure 28: Number of PR17 waivers approved and denied, 2001-2004

Waiver Type		2001	2002	2003	2004	Total	Percentage of Waivers Approved
General Waivers	Approved	4	3	0	0	7	100%
	Denied	0	0	0	0	0	
Statutory Waivers	Approved	54	22	29	26	131	90%
	Denied	6	1	5	2	14	
Compensatory Waivers	Approved	7	10	11	5	33	100%
	Denied	0	0	0	0	0	
Conditional Waivers	Approved	7	0	0	0	7	100%
	Denied	0	0	0	0	0	

Figure 28 shows the status waiver applications to MARAD for the years, 2001-2004. According to MARAD, all applications for statutory waivers that were denied were due to a determination by MARAD that U.S.-flagged vessels were available to carry the cargo within a reasonable amount of time and/or at a reasonable rate.

Exporter and Lender Survey Results

Exporters noted that the MARAD requirement is a factor that places them at a competitive disadvantage. Reasons for the disadvantage may include higher costs associated with shipping via U.S.-flagged vessels and coordinating shipping on these vessels may be relatively more difficult.

Conclusion

As a condition of Ex-Im Bank's direct loan and long-term guarantee financing, U.S. exporters are required to comply with U.S. flag vessel requirements. The cargo preference rules appear to present a competitive disadvantage for U.S. exporters because none of the other G-7 ECAs have similar requirements related to shipping. However, although the MARAD waiver data appear to present the waiver process as an effective means of addressing any potential hardship or limitation placed on exporters by PR 17, the requirement remains a negative factor affecting Ex-Im Bank's competitiveness.

Chapter 6: Public Policies – Stakeholder Considerations
Section F: Ex-Im Bank's Public Policy Competitiveness

The public policy requirements imposed on Ex-Im Bank are largely unique to the Bank as compared to the other G-7 ECAs. The exceptions are (i) local costs support where Ex-Im Bank is fully competitive with its ECA counterparts, and (ii) foreign content where Ex-Im Bank is considered to be more restrictive than its counterparts. The other public policy factors which are shown below in **Figure 29** are areas, when present in a given transaction, that can have a negative effect on Ex-Im Bank's competitiveness, as no other G-7 ECA has a comparable requirement.

Figure 29: Grading of Ex-Im Bank's Public Policy Competitiveness

Policy	G-7 ECAs Have Similar Constraint? (Yes/No)	Potential Impact on Competitiveness
Economic Impact	No	Negative
Foreign Content	Yes	Negative
Local Costs	Yes	Positive
PR 17	No	Negative
Overall Assessment		**Negative**

Chapter 7: Conclusion

For 2004, Ex-Im Bank's overall competitiveness as compared to its G-7 ECA counterparts was deemed to be an "A", meaning that the Bank was generally competitive with the other ECAs. Specifically, Ex-Im Bank was viewed as consistently offering terms equal to the average G-7 ECA. **Figure 30** shows that the core financing elements of premia, interest rate, and cover policy were important areas in which Ex-Im Bank fared very well against its competition. The Bank also performed well in the major program structures of aircraft, project finance, and generally on par with competitors' foreign currency guarantee programs. On the other hand, the Bank was viewed as relatively less competitive with regard to co-financing programs.

Figure 30: Grading of Ex-Im Bank's Overall Competitiveness

Structural Elements	Grade
Core Business Policies and Practices	**A**
A. Cover Policy and Risk Taking	A
B. Interest Rates	A
C. Risk Premia	A+
Major Program Structures	**A**
A. Large Aircraft	A
B. Project Finance	A+
C. Co-Financing	B
D. Foreign Currency Guarantee	A
OVERALL COMPETITIVENESS GRADE	**A**

The direction of the potential competitive effect on a given transaction that might be impacted by broader U.S. philosophy and public policy requirements is summarized in **Figure 31**. The presence of any one or combination of the seven philosophical or public policy factors is generally infrequent and difficult to quantify in terms of prevalence. However, if any one or a combination of these factors does present itself in a given deal, the likely potential impact on the competitiveness of the transaction is negative, except for the case of local cost support.

The basic free market-driven U.S. economic philosophy provides many benefits to U.S. exporters and Ex-Im Bank's competitiveness. However, as recognized in the earlier chapters addressing Economic Philosophy and Public Policy (Chapters 5 and 6), the basic philosophy of Ex-Im Bank and most of its G-7 counterparts differ with this difference manifested in "outlier" programs such as tied aid and market windows. These programs intersect U.S. capital goods exports fairly rarely. Hence, although the consequences can be noticeably to quite negative for individual transactions, the "net" negative implication of these factors on Ex-Im Bank's overall competitiveness appears modest. In addition, Ex-Im Bank is required to address several policy issues that exist with the intent of promoting broader U.S. public policy objectives – an intent not specifically addressed by or mandated to our G-7 counterparts. These differences, whether collectively or individually, can erode Ex-Im Bank's otherwise strong competitive position. These factors include foreign content, economic impact, and PR 17/shipping on U.S. bottoms, while Ex-Im Bank's current local cost policy is generally competitive with those of our foreign ECA counterparts.

Figure 31: Direction of Case-Specific Competitive Impact of U.S. Economic Philosophy or Public Policy on Certain Official Export Credit Activity, Procedures or Practices

Areas Affected by U.S. Economic Philosophy or Public Policy	Potential Case-specific Impact on Competitiveness
Economic Philosophy	
A. Tied Aid (direct or "de facto")	**Negative** (infrequently encountered, therefore, a modest overall competitive impact)
B. Market Windows	**Neutral to negative** (infrequently encountered)
Public Policy	
A. Economic Impact	**Negative**
B. Foreign Content	**Negative**
C. Local Costs	**Positive**
D. Shipping – PR 17	**Negative**

Appendix A: Calculation of Ex-Im Bank Grade

In the body of this report, Ex-Im Bank graded its policies and programs. In the sections of the report pertaining to the core financing programs and practices, grades were assigned to each program and practice. In order to aggregate and average these grades for the determination of the overall competitiveness grade in Chapter 7, values were assigned to each grade that are comparable to those used in a typical U.S. university. First, **Figure A1** provides the meaning and score of select grades. Averaged sub-category grades determined a category's grade, and **Figure A2** illustrates the range of possible averaged scores that defined each grade. If a survey respondent did not have experience with a program or policy (i.e., response was an 'NA'), the response was not calculated into the grade for that program or policy.

Figure A1: Definition of Select Grades

Grade	Definition	Score
A+	Fully competitive compared to other ECAs. Consistently equal to the (or is the sole) ECA offering the **most competitive** position on this element. Levels the playing field on this element with the most competitive offer from any of the major ECAs.	4.33
A	Generally competitive compared to other ECAs. Consistently offers terms on this element **equal to the average** terms of the typical major ECA. Levels the playing field on this element with the typical offer from the major ECAs.	4.00
A-/B+	Level of competitiveness is in between grades A and B.	3.50
B	Modestly competitive compared to other ECAs. Consistently offers terms on this element **equal to the least** competitive of the major ECAs. Does not quite level the playing field on this element with most of the major ECAs.	3.00
B-/C+	Level of competitiveness is in between grades B and C.	2.50
C	Barely competitive compared to other ECAs. Consistently offers terms on this element that are a **notch below** those offered by any of the major ECAs. Puts exporter at financing disadvantage on this element that may, to a certain extent, be compensated for in other elements or by exporter concessions.	2.00
D	Uncompetitive compared to other ECAs. Consistently offers terms on this element that are **far below** those offered by other major ECAs. Puts exporter at financing disadvantage on this element so significant that it is difficult to compensate for and may be enough to lose a deal.	1.00
F	Does not provide program.	0.00
NA	Does not have experience with policy/program.	

Figure A2: Range of Averaged Scores for Each Grade

Grade	Maximum Score	Minimum Score
A+	4.330	4.165
A	4.164	3.75
A-/B+	3.74	3.25
B	3.24	2.75
B-/C+	2.74	2.25
C	2.24	1.50
D	1.49	0.50
F	0.49	0

Because the public policies and economic philosophies are not expected to impact the same volume of transactions as the core financing and program elements, survey respondents were asked to indicate if the public policies and economic philosophies would positively, negatively or neutrally affect Ex-Im Bank's competitiveness. The following chart in **Figure A3** shows the scale that was used by survey respondents to assess the competitive impact of these policies and philosophies.

Figure A3: Assessing Impact of Economic Philosophies and Public Policies Ex-Im Bank's Overall Competitiveness

	Effect on Competitiveness	Description
+	Positive	Philosophy, policy or program has a positive impact on Ex-Im Bank's competitiveness (moves Ex-Im Bank's competitiveness grade up one notch).
*	Neutral	Philosophy, policy or program has a neutral impact on Ex-Im Bank's competitiveness (no impact on Ex-Im Bank's competitiveness grade).
-	Negative	Philosophy, policy or program has a negative impact on Ex-Im Bank's competitiveness (moves Ex-Im Bank's competitiveness grade down one notch).

Appendix B: Purpose of Ex-Im Bank Transactions

Congress requires Ex-Im Bank to include in the annual Competitiveness Report a breakdown of the purposes for Ex-Im Bank support for transactions. For this report, the two purposes of Ex-Im Bank support for transactions are to either fill the financing gap when private sector finance is not available or to meet foreign competition. **Figure B1** shows the number and amount of Ex-Im Bank transactions authorized in 2004 by purpose and program type.

Figure B1: Ex-Im Bank Transactions by Purpose

	No Private Sector Finance Available		Meet Competition		Not Identified	
	($MM)	(#)	($MM)	(#)	($MM)	(#)
Working capital guarantees	$623	339	0	0	$10	8
Short-term insurance	$3,712	1,884	0	0	0	0
Medium-term insurance	$615	450	$271	23	$2	3
Guarantees	$3,995	221	$4,173	17	$2	3
Loans	$151	3	$58	1	0	0
TOTAL	**$9,096**	**2,897**	**$4,502**	**41**	**$14**	**14**

Appendix C: Exporter and Lender Survey Results

Introduction

Ex-Im Bank annually surveys exporters and lenders that use the Bank's medium- and long-term programs. This Congressionally mandated survey provides critical information for the Report, as it encourages respondents to compare Ex-Im Bank's policies and practices with those of its G-7 ECA counterparts during the calendar year. Ex-Im Bank continued its approach of administering the survey on-line, which permitted the survey to reach a larger number of potential participants. In addition to the formal on-line survey, Ex-Im Bank conducted focus group discussions with experienced exporters and lenders of Ex-Im Bank programs to get more detailed comments about the global market in which they operated in 2004 and the competitive implications for Ex-Im Bank.

Survey

Ex-Im Bank's survey consisted of five parts that focused on the following areas:

Part 1: General information on the profile of the respondent.

Part 2: Respondent's experience in both receiving support from and facing competition from other ECAs, in addition to reasons for using Ex-Im Bank.

Part 3: Respondent ratings of and comments on Ex-Im Bank's competitiveness with foreign ECAs in the policies and programs in the Competitiveness Report.

Part 4: Additional comments.

Part 5: Outcome of specific cases of competition faced as a result of the above policies.

Participant Selection

The survey was sent to companies that used Ex-Im Bank's medium- and long-term programs during 2004. In total, 155 lenders and exporters were asked to participate in the survey.

Survey Results

Figure C1 highlights the response rate for the survey participants. The overall response rate for lenders on the survey was just 26%, which was a slight decrease from the 2003 response rate of 29% (although the total number of lenders that responded increased slightly from 12 in 2003 to 14 in 2004). The response rate from the exporters was considerably lower than the previous year (10% in 2004 vs. 28% in 2003), as the Bank only received ten responses from the 102 surveys that were sent to exporters. The lower response rate may be due to the fact that the survey was sent to more companies, many of which had less experience with Ex-Im Bank than the pool of recipients in previous surveys.

However, there appears to be a steady deterioration in the number of knowledgeable exporters and lenders that respond to the Competitiveness Report Survey. In the past, when the survey was sent by mail and fax, there was broader participation by the top exporters and bankers that regularly used Ex-Im Bank's programs. In 2004, only two of the top ten exporters and two of the top ten Ex-Im Bank lenders responded to the survey. (However, there was greater participation by the top exporters in the focus discussions, as four of the top ten exporters participated along with two of the top ten lenders.)

Figure C1: Survey Response Rate

	Lenders		Exporters	
	2003	2004	2003	2004
Number surveyed	41	53	53	102
Number responded	12	14	15	10
Response rate	29%	26%	28%	10%

Lenders

Figure C2 shows the lender experience levels for both length of time in business and experience in export finance. The vast majority of survey respondents had more than ten years experience in export finance. **Figure C3** shows the volume of export credits extended during 2004. The majority of lenders that responded to the survey were smaller regional banks, and only two of the lenders had over $1 billion in export credit extended for the year. [Note: two of the 14 lenders did not report volume of export credits.]

Figure C2: Lender Experience Levels

	1-3 years	4-10 years	11-20 years	20+ years
Time in business	0	1	3	10
Time in export finance	0	2	2	10

Figure C3: Volume of Lenders' Annual Export Credits

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Total export credit volume	4	2	1	2	1	2

Figure C4 shows the percentage of lenders' export credits extended during 2004 that were supported by Ex-Im Bank during the year. Half of the reporting lenders noted that Ex-Im Bank support constituted less than 25% of their export credits extended during the year. Of those lenders reporting the volume and percentage of export credits, two lenders reported having over 75% of their export credit being supported by Ex-Im Bank.

Figure C4: Percentage of Lender Export Credits That Were Ex-Im Bank Supported

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export credits supported by Ex-Im Bank	3	3	1	3	2

Nearly all of the lenders surveyed noted that the lack of useful private sector financing was the reason for pursuing Ex-Im Bank financing, particularly for financing transactions in Asia and Eastern Europe. A majority of lenders stated that Ex-Im Bank support was needed to meet competition from foreign companies that receive ECA financing, particularly in China, Russia and Eastern Europe. The ECAs identified by the lenders as the most "frequent" or "regular" partners were Coface, Hermes, and ECGD. The banks that were most likely to cooperate with other ECAs were foreign-owned. Hermes and Coface were cited as the ECAs that lenders most often faced in competition.

Exporters

Figure C5 shows the distribution of exporters by time in business, and **Figure C6** shows the size of exporters based on sales and export sales volume. The majority of exporter respondents were smaller business, as five of the reporting exporters had annual sales of less than $10 million. The three other reporting exporters were on the opposite end of the scale with over $1 billion in annual sales and exports. [Note: Two of the ten exporters did not report their volume of annual and export sales.]

Figure C5: Exporter Experience Levels

	1-3 years	4-10 years	11-20 years	20+ years
Time in business	0	3	3	4
Time in export finance	1	4	2	3

Figure C6: Volume of Exporter Annual Sales and Exports

	Under $10 million	$10 - $50 million	$51 - $100 million	$101 - $500 million	$501 million - $1 billion	Over $1 billion
Total sales volume	5	0	0	0	0	3
Total export sales volume	5	0	0	0	0	3

Figure C7 shows the distribution of exporters by the percentage of export sales that were supported by Ex-Im Bank. Of the three respondents that indicated using Ex-Im Bank for less than 10% of export sales, two were larger corporations with annual export sales greater than $1 billion. Of the three exporters that relied on Ex-Im Bank financing for more than 50% of their export sales, all three were smaller companies with annual sales of less than $10 million.

Figure C7: Percentage of Exporters Sales That Were Ex-Im Bank Supported

	Less than 10%	10%-25%	26%-50%	51%-75%	Over 75%
Percentage of export sales supported by Ex-Im Bank	3	0	3	2	1

Very few of the exporters indicated experience working with other ECAs; however of those with experience, ECGD and Hermes were used regularly by some exporters. However, most of the exporters reported facing competition from foreign companies that were supported by their national ECAs. The most commonly identified ECAs were Hermes and EDC, followed by Coface, SACE, and JBIC.

Appendix D: G-7 Export Credit Institutions

Canada

- **Export Development Canada (EDC)** is a "Crown Corporation" (i.e., a government entity that operates on private sector principles) that provides, among other products, short-term export credit insurance, medium- and long-term guarantees, and medium- and long-term direct loans, which may or may not be provided on a CIRR basis.

France

- **Compagnie Française d'Assurance pour le Commerce Extérieur (Coface)** is a private insurance company that provides, in addition to short-term insurance that goes on its own book, official medium- and long-tem export credit insurance on behalf of the French government.

Germany

- **Euler Hermes Kreditversicherungs-AG (Hermes)** is a consortium of a private sector insurance company and a quasi-public company that provides official export credit insurance on behalf of the German government, similar to Coface of France. Hermes also provides short-term export insurance on its own account, according to standard market practices.
- **Kreditanstalt für Wiederaufbau (KfW)** is a financial institution that is owned by the German government and the federal states (Länder). KfW exists to promote the growth of the German economy in a variety of ways. One of its missions, though not its largest, is the funding of German export credits, both at market rates and through a government-supported window to achieve CIRR. KfW also administers the provision of German tied aid funds. The decision as to where and how tied aid should be used rests with another part of the German government. At the end of 2003, KfW announced that the majority of its export credit business would be spun off into an independent, 100%-owned subsidiary called KfW IPEX-Bank (this spin-off will be finalized by 2008). KfW will continue to offer export credit support on a limited basis: in a syndicate for less risky markets and on its own only in the riskiest markets.

Italy

- **SACE**, or the Istituto per i Servizi Assicurativi del Commercio Estero, provides official export credit insurance. Pursuant to law enacted in 2003 and effective January 1, 2004, SACE became a limited liability joint stock company whose shares are wholly owned by the Ministry of Economy and Finance. Under this new structure, SACE continues providing medium- and long-term official export credit insurance and began to provide short-term insurance on its own account.
- **SIMEST** provides interest rate support to commercial banks in order to achieve CIRR. SIMEST is a development financier, with public and private participation, instituted in 1990 for the promotion and construction of joint ventures abroad. The Ministry of Foreign Trade is the majority shareholder. The private shareholders consist of Italian financial institutions, banks and business associations.

Japan

- **Nippon Export and Investment Insurance (NEXI)** is an independent governmental institution responsible for official export credit insurance operating under the guidance of the Ministry of Economy, Trade and Industry (METI).

  Historically, Japanese exporters were required to insure all of their short-term business through NEXI, but in 2004 the Japanese government removed this requirement and began welcoming private insurers into the Japanese export credit insurance market.

- The **Japan Bank for International Cooperation (JBIC)** is a government bank that falls under the Ministry of Finance. In its capacity as an export credit agency, JBIC provides direct loans in combination with commercial bank financing. In addition, JBIC provides untied, investment and import credits.

United Kingdom

- **Export Credits Guarantee Department (ECGD)** is a separate department of the U.K. government that provides export credit guarantees and interest rate support for medium- and long-term official export credit transactions. ECGD also maintains a "top-up" reinsurance facility with a private insurance company in the event that the private sector is unwilling to provide short-term export insurance to a U.K. exporter who wishes to sell a product to a market where official export credit support is customarily available from other countries.

  In July 2004 the U.K government announced a series of changes to ECGD that were designed to provide greater certainty for ECGD's future. The most significant of these changes was the announcement that a pilot ECGD Trading Fund will operate from April 2005 as a trial for the statutory Trading Fund, which is scheduled to start in April 2007. The Trading Fund will have a specific target rate of return, but despite fears expressed by U.K. exporters, ECGD's Chairman of the Board has stated in ECGD's 2003-2004 Annual Report that the Trading Fund "should not result in any increase in premium or reduction in cover."

Appendix E: State of Play in the OECD

Introduction

One of Ex-Im Bank's primary objectives is to level the playing field for U.S. exporters facing foreign competition supported by their governments' official export finance programs. However, in the face of the significant financial costs of leveling the playing field, developed countries determined that a common agreement on the appropriate terms for export credit support was necessary. Since the Arrangement came into force over twenty-five years ago, Ex-Im Bank has found it to be the most successful long-term tool at its disposal for leveling the playing field across the board and minimizing the costs associated with matching competition. Accordingly, OECD ECAs have agreed to critical disciplines on repayment terms, interest rates, tied aid and sovereign exposure fees, in addition to rules on specific sectors such as large commercial aircraft. These disciplines have significantly reduced the potential volume of subsidized transactions that Ex-Im Bank would need to match, thereby saving the U.S. government hundreds of millions of dollars annually. Of critical importance, these official export finance disciplines have created more room for the private export finance sector to operate.

With disciplines on most financial aspects of standard export credits and tied aid agreed, the OECD Working Party on Export Credits and Credit Guarantees in recent years has focused instead on a variety of non-financial issues along a much broader spectrum of concerns.

Typical Official Export Credit Negotiations Process:

The process of adopting multilateral rules to eliminate official export credit subsidies and level the playing field typically involves the following five stages:

1. Agreement to exchange information or establish transparency in order to provide the basis for work on a particular issue;

2. Creation of a system or framework of rules that can lead to reductions in subsidy and/or further level the playing field;

3. Establishment of a yardstick within the framework by which progress can be measured (e.g., charging market level interest rates or requiring a project to be commercially non-viable in order to allow tied aid);

4. Moving the yardstick higher (i.e., requiring ever higher interest rates until zero subsidy is achieved, or increasing the minimum concessionality in tied aid); and

5. The ongoing process of refining and adapting any rules as more knowledge becomes available and/or the world changes.

Against this framework, 2004 witnessed developments in the following areas:

- Adoption of an Agreement on Untied Official Development Assistance (ODA) Credits Transparency,
- Formation of a working group to review the terms and conditions of the Large Aircraft Sector Understanding, and
- Implementation of the environmental Common Approaches

The sections below provide a more detailed summary of these and other important competitive issues under discussion at the OECD.

The Arrangement

The Arrangement on Officially Supported Export Credits, or the Arrangement, first came into effect in 1978 when OECD governments agreed the initial rules to constrain the provision of subsidies in support of their national exporters. By limiting subsidy competition amongst governments, the Arrangement leveled the playing field for exporters and shifted competition from the terms of financing to the quality and price of the goods and services being exported. The disciplines of the Arrangement have evolved and expanded over time to place significant parameters around the provision of official export credits. According to the framework above, many aspects of the Arrangement have been in stage 5 for a number of years.

Environment

In December 2003 the OECD concluded an agreement on ECAs' environmental review of sensitive projects, called the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits, or "the Common Approaches." This agreement represented a significant step forward in leveling the playing field for major projects and in ensuring that export credit support for these projects does not contribute to environmental degradation.

The major achievements of the 2003 Common Approaches are provisions that require the use of international standards for environmental review and that expect disclosure of environmental information prior to approval of sensitive projects. In 2004 the OECD proceeded to implement the Common Approaches by beginning the reporting on transparency and standards used in environmental reviews of sensitive projects. The environment, then, is an issue that continues at stage 3.

Tied and Untied Aid

Disciplines on tied aid have been in place since 1992 and have gradually been fine-tuned over time as ECAs continued to develop experience in assessing commercial viability in a variety of sectors. In 2004, this experience has begun to plateau as fewer and fewer projects have been the subject of consultations at the OECD. Thus, the tied aid negotiations are effectively at stage 5.

In November 2004, the OECD finally agreed on a U.S.-proposed two-year pilot program that provides for greater transparency and efficiency in the use of untied ODA credit. It also provides for unclassified prior notification of upcoming bids. Before this program, the Arrangement only required untied aid to be notified to fellow OECD Participants, which is considered classified.

Even though the donor government does not legally tie procurement to its firms, untied aid can be "de facto tied" and used to circumvent the tied aid disciplines that require a minimum concessionality level, and preclude tied aid for commercially viable projects and to rich countries. The Agreement on Untied ODA Credits Transparency, as the pilot program is called, began implementation on January 1, 2005 and represents a necessary first step in the United States' efforts to achieve disciplines for untied aid. In the past, a lack of knowledge of upcoming bids effectively restricted a broad range of bidding participation. The disclosure of bid winners required under the new agreement should go a long way toward ensuring over the long-term that untied aid is effectively untied. Thus, untied aid discussions concluded stage 1 in 2004.

Exposure Fees (Risk Premia)

ECAs charge exposure fees for taking the risk that the obligor will not repay. Effective April 1, 1999, an agreement, called the Knaepen Package, laid out rules for convergence on exposure fees for officially supported export credits of over two years. The agreement sets minimum exposure fees for sovereign transactions, and the sovereign benchmark sets the minimum rate for all other transactions within the country. Except for aircraft and ships, which are subject to separate disciplines, all transactions subject to the Arrangement must comply with the exposure fee disciplines.

The fee negotiations have remained at stage 3 since the inception of the Knaepen Package. In 2004, a multi-country working group of experts focused on finalizing a transparency exercise on buyer risk pricing and reporting back to the OECD Participants on the "causes" for continued divergence in ECAs' private buyer pricing. Going into 2005 it is expected that ongoing pressure will result in a mandate for experts to investigate possible solutions to the lack of convergence. The United States will continue to advocate that buyer risk pricing should be risk-based and not undercut the private market.

Interest Rates

There was very little discussion of official export credit interest rates in 2004. Fixed interest rate provisions for ECA direct loans, or Commercial Interest Reference Rates (CIRR), have long been subject to rules that have largely neutralized competition and eliminated subsidy. One long-standing issue with competitiveness implications remains unresolved: the existence and use of interest make-up (IMU) schemes, a tool largely used by European ECAs in conjunction with their commercial banks that can involve a degree of subsidization. The ongoing lack of formal action is due to the linkage of this issue to other issues, such as market windows and exposure fees. In sum, the interest rate negotiations on the current fixed rate CIRR regime as a whole are at stage 5 and represent the issue for which the most progress has been achieved to date.

This issue of creating a floating rate CIRR arose in 2000 as a result of the WTO dispute between Canada and Brazil over export credit support for regional aircraft. In these cases, the WTO found that, under the ASCM, officially supported export credits are a prohibited subsidy unless they are on market terms (from the borrower's perspective, i.e., the benefit to the borrower test) or the support is in compliance with the OECD Arrangement interest rate provisions. The WTO held that the OECD interest rate provisions only yield a safe harbor for the CIRR fixed interest rate because minimum interest rates are stipulated and, therefore, provide no safe harbor for individually determined floating rate lending by ECAs or for pure cover transactions (guarantees and insurance). Due to the technical and political complexity of designing a floating rate CIRR that does not compete with commercial bank activity, work on a floating rate CIRR has not progressed beyond stage 1.

Large Commercial Aircraft

In the 1980s, the Large Aircraft Sector Understanding (LASU) of the Arrangement was created to fit the unique characteristics of the large aircraft financing business, providing longer repayment terms and special interest rate structures, although it does not have exposure fee rules. The LASU is applicable to transactions benefiting from official export credit support for large commercial aircraft (airplanes that have more than 70 seats and are powered by a jet engine).

The primary LASU participants are the European ECAs that support Airbus (France, Germany and the United Kingdom) and the United States. Although Ex-Im Bank meets regularly with its foreign counterparts to discuss issues of common interest, there had been no official discussions on the terms of the LASU since its inception. This situation changed dramatically in December 2004 when the OECD Participants agreed to start, in 2005, a review of the terms and conditions set out in the LASU.

The entry of Canada and Brazil into the large aircraft sector provided the impetus to reopen LASU discussions. As a result, Brazil was invited to participate in the LASU discussions as full participants, with all the rights and obligations. Thus, this issue moved to stage 5 during 2004.

Market Windows

A market window is an institution (or a part of an institution) that claims to operate on a commercial basis while benefiting either directly or indirectly from some level of government support. Market windows pose competitive challenges and transaction-specific problems to other ECAs because:

- The support provided by such entities is only available to their national economic interests; and

- The attractiveness of the financing packages (especially interest rates) provided by market windows tends to stretch the boundaries of what a private institution might be willing to provide.

The United States believes that market window activity represents a potential threat to the disciplines that the OECD Arrangement negotiations have sought to instill in all official lenders. Due to ongoing resistance from the Participants with major market windows (Germany with KfW, Canada with EDC) to agree even to share information about their activity, let alone agree to disciplines, little progress has been made at the OECD. However, in 2002, the EU Commision and the German government entered into an agreement to restructure Germany's development banks, including KfW, that is expected to rein in KfW's export credit operation by creating an arms-length subsidiary and removing its government-provided benefits. As a result, other OECD Participants are unsympathetic to pushing the market window issue until they can see for themselves the effects of KfW's reforms. Thus, the market windows issue has not even reached stage 1. To progress the issue, Ex-Im Bank is working with both EDC and KfW on a bilateral basis to increase the amount of information available to the Bank on transaction terms.

Appendix F: Emerging Market Export Credit Agencies

Introduction

While the participants and issues in the world of official export credits has slowly evolved over the last few decades, the status quo is being challenged by the emergence of an “alternate ECA world”, led by the rapidly growing ECA systems in China, Brazil and India. Not since Japan emerged in the 1960s as a major provider of capital equipment and export credits has the export credit arena seen the scope and scale of change that is likely to occur in the next five years.

The recent rapid growth in activity of the Chinese, Brazilian and Indian ECAs reflects a concerted effort on the part of their respective governments to expand the competitive position of their export sectors worldwide. These ECAs have grown so dramatically since the turn of the century that their activity now substantially exceeds that of many OECD ECAs. For example, by 2004 the total medium- and long-term ECA support from China’s two official export credit providers probably put them in the top five ECAs globally. [Total medium- and long-term “activity” of the ECAs from all three countries is about one-quarter of OECD ECA activity.]

This chapter represents the first step in an ongoing Ex-Im Bank effort to evaluate the competitive implications of the official support provided by the Chinese, Brazilian and Indian ECAs. Ex-Im Bank conducted research on these ECAs by speaking with exporters and banks who have had competitive experience with these ECAs, reviewing annual reports and press clips and, in some cases, interviewing officials from these ECAs. However, information on the specific terms and conditions offered by these ECAs in competitive situations is very limited, in part because they are not members of the OECD. Nevertheless, there is reason to believe that some (if not much) of the export credit support offered by these ECAs may not be consistent with OECD Arrangement terms and conditions.

The remainder of this chapter will provide an overview of each country’s strategic focus and philosophy regarding exports and export finance, generate (to the extent possible) a comparative data reference, summarize export credit programs to illustrate how they support national export strategies and provide a preliminary indication of competitive implications for Ex-Im Bank.

China

Overview

China’s exports have risen dramatically over the last several years, from $249 billion in 2000 to $593 billion in 2004. The United States is China’s largest export market with a 21% share, followed by Hong Kong at 17% and Japan at 12%. Principal export products include office machines and data processing equipment, telecommunications equipment, apparel and clothing, electrical machinery and textiles.

In 2002, the Chinese government implemented a “Going Out” strategy to encourage domestic enterprises to export and invest abroad. While part of this strategy involves trade with the major developed economies, China is also rapidly expanding trade with other developing countries. "Directed" official export credit support (e.g., for certain sectors, such as telecommunications, in select markets) is seen as one way to establish Chinese market share in riskier markets where major multinational corporations have less exposure.

China has two government entities that support Chinese exports and carry out Chinese trade policy – the Export-Import Bank of China (China Eximbank) and Sinosure. China Eximbank provides short-, medium- and long-term loans and guarantees for Chinese exports while Sinosure provides short-, medium- and long-term export credit insurance. Sinosure insurance may also be used in combination with China Eximbank funding. However, the extent to which Sinosure insurance and China Eximbank lending overlap is not completely clear. Nonetheless, it is known that the two institutions are not required by law to do business with one another, which is a common practice in other Asian countries such as Japan.

Export-Import Bank of China (China Eximbank)

China Eximbank was established in 1994 as a wholly government-owned entity under the guidance of the State Council. Its mandate is "to implement state policies in industry, finance, foreign trade and economy, to promote the export of Chinese mechanical and electronic products and high and new tech products, to encourage well established Chinese enterprises with comparative advantages to implement the national strategy of 'going out', and to enhance Sino-foreign economic and technological cooperation and exchanges by means of providing policy financial support."

China Eximbank achieves this mandate by offering a variety of export financing products, including export loans, export credit guarantees and concessional loans. China Eximbank will provide preferential terms for priority projects by major Chinese enterprises. Since its inception, China Eximbank has increased its loan activity consistently by focusing on industries such as China's high-tech sector. In 2003 (2004 data is not yet available), the China Eximbank approved new credits worth 8.3 billion USD, with a total year-end exposure of 30.4 billion USD. Major sectors receiving support include shipping, power and high-tech industries.

China Eximbank provides loans to both exporters and overseas buyers of Chinese exports. For exporter credits, the China Eximbank requires a down payment of at least 15%, and interest rates are determined by the People's Bank of China. Supplier credits target specific sectors such as shipping, high technology products and mechanical and electrical products. Buyer credits (many of which are "big-ticket" projects such as telecom and power station projects), on the other hand, are provided on terms and conditions that, according to the China Eximbank's web site, "generally follow the Arrangement." Interest rates are either fixed or floating rates. The maximum repayment term is 15 years from the first disbursement of the loan. In addition, China Eximbank requires a minimum 15% down payment.

Like many OECD governments, China Eximbank provides concessional loans to support both foreign policy and national industrial development goals. Unlike OECD governments, China Eximbank does not necessarily follow the tied aid rules of the Arrangement, which ensure that trade-related aid is truly aid and not trade distorting. In fact, given that the program is geared towards "manufacturing projects with favorable economic returns" and must be linked to Chinese procurement, this program is highly likely to be trade distorting.

Specific information on the terms and conditions of China Eximbank's soft loans is not available; however, anecdotal evidence from U.S. exporters suggests that the loans are priced just low enough to sway purchasing decisions without providing the 35% concessionality the Arrangement requires. Two key sectors that U.S. exporters believe are Chinese concessional lending targets are resource exploration and high technology products (e.g., telecom). U.S. high technology exporters believe that China Eximbank is providing soft loans to commercially viable sectors in developing economies to establish market share. Resource-rich developing countries in Africa and the Middle East have been the primary beneficiaries of Chinese soft loans. In 2001, the last year China Eximbank publicly provided such data, the total volume of China Eximbank's concessional lending reached 10.6 million RMB (128 million USD).

Figure F1: China Eximbank Activity 2000-2004 (in $mns)*

China Eximbank	2000	2001	2002	2003	2004
Short-term	NA	NA	$ 980	$ 2,850	NA
M- & L-term	NA	NA	$4,560	$ 8,690	NA
TOTAL	NA	NA	$5,540	$11,540	NA

* It should be mentioned that the M/LT data is probably overstated by $1 billion or more because it includes investment loans. In addition, the ST data is also probably overstated as it contains some MT data as well. These discrepancies are due to the need to proxy disaggregation of aggregate data to achieve a comparable table.

Sinosure

Sinosure is a wholly state owned export credit insurance agency that was formed in December 2001 as a result of the merger between the export credit insurance system of People's Insurance Company of China and China Eximbank. Sinosure is headquartered in Beijing with a national service network of 12 regional offices and seven representative offices. Sinosure's mandate is "to support the export of goods, technology and services, especially high-tech and high value added capital goods, to provide Chinese enterprises with protection against payment risk and to facilitate the development of overseas markets." In addition, a related goal is to facilitate the financing of export transactions and to improve the competitiveness of Chinese companies in international markets and provide them strong support in their overseas expansions.

To achieve this objective, Sinosure offers a number of programs aimed at the export financing needs of the Chinese economy. These programs include short-, medium- and long-term export credit insurance, investment insurance, export related bonding and guarantees. Furthermore, Sinosure has initiated special programs aimed at the top 200 Chinese exporters by offering priority services to major companies and "best customers." In addition, the Chinese government announced in October 2004 that it would pay half of the premium charged by Sinosure to encourage increased use of Sinosure's programs.

Since 2001, Sinosure's medium and long-term support has increased from $940 million to $1.36 billion in 2003. Total activity was near $6 billion in 2003 and Sinosure recently announced a goal of doing $20 billion in 2005. U.S. exporters indicate they are seeing increasing competition from Sinosure in sub-Saharan Africa, particularly in Nigeria.

Figure F2: Sinosure Activity 2000-2004 (in $mns)

Sinosure	2000	2001	2002	2003	2004
Short-term	$1,940	$1,430	$1,750	$4,260	NA
M- & L-term	$1,770	$940	$ 820	$1,360	NA
TOTAL	$3,710	$2,370	$2,570	$5,620	NA

Competitiveness Impact

China's "Going Out" strategy could pose a significant competitive threat to U.S. exporters. This potential threat is due largely to their apparent willingness to provide concessional financing as a means of establishing market share in developing countries. This practice has already been identified as an area of concern by U.S. exporters.

Figure F3: Total Chinese Officially Supported Export Finance (in $mns)*

China	2000	2001	2002	2003	2004
Short-term	$1,940	$1,430	$2,730	$7,110	NA
M- & L-term	$1,770	$ 940	$5,380	$10,050	NA
TOTAL	$3,710	$2,370	$8,110	$17,160	NA

* This probably overstates the total business done by China Eximbank and Sinosure. This is due to the fact that Sinosure insures a portion of China Eximbank's business. As mentioned above, the extent to which the two agencies work together is uncertain.

Brazil

Overview

Brazil's exports have nearly doubled in the past few years, increasing from $55 billion in 2000 to $96 billion in 2004. Although Brazil is a major agricultural exporter, the majority of its exports are industrial goods. In fact, Brazil's largest export sector by dollar volume is aircraft, with domestic manufacturer Embraer one of the leading aerospace manufacturers globally. Other key capital goods exports include oil and gas equipment, automotive equipment and telecommunications.

Brazil has two primary export credit agencies. Banco Nacional de Desenvolvimento Econômico e Social (BNDES), or the Brazilian Development Bank, provides direct loans. Seguradora Brasileira de Crédito à Exportação (SBCE), or the Brazilian Export Credit Insurance Agency, provides export credit insurance. In addition, Banco do Brasil administers Programa de Financiamento as Exportacoes (PROEX), or Export Financing Program, which offers both direct loans and interest rate equalization for banks providing trade finance. (The PROEX program seems to have diminished in importance relative to BNDES and SBCE; hence, this section will not address PROEX further.) An inter-ministerial committee, the Export Finance and Guarantee Committee (COFIG), makes overall export credit policy; monitors PROEX and the Export Guarantee Fund

(FGE), which backs SBCE; and approves PROEX and SBCE transactions over approximately $5 million dollars.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

BNDES was created in 1952 to be the main source of long-term financing for the Brazilian domestic economy. Similar to Germany's KfW, BNDES serves many domestic development functions in addition to providing export finance, including social programs, infrastructure support and the development of small and medium-sized enterprises (SMEs). BNDES' total disbursements have ranged from $11 billion to $18 billion from 1997 to 2004.

BNDES began its export finance program in 1991. The program has four key objectives:

1. Offer financing for the export of goods and services of "greater added value" under internationally competitive conditions;
2. Increase Brazil's export base, with an emphasis on SMEs;
3. Generate foreign currency, income and employment; and
4. Promote the integration of South America (an overarching Brazilian government goal).

Because Brazil's domestic banks are unable to provide long-term financing for Brazilian exporters, and because foreign banks are unwilling to finance Brazilian exports with a Brazilian government guarantee, BNDES operates as the country's primary provider of medium- and long-term export finance. Thus, the "internationally competitive conditions" articulated in the first objective above mean that BNDES will both meet official export credit competition on OECD Arrangement terms *and* private finance on market terms (i.e., market window financing). Rather than operating as a lender of last resort, BNDES is Brazil's trade finance lender of only resort.

Three factors constrain and philosophically parameter the aggressiveness with which BNDES pursues its mission of providing competitive financing to its exporters, regardless of the source of competition. First, the Brazilian government's cost of funds is high enough that BNDES could easily deplete its capacity if it over-subsidized loans. Second, a large portion of BNDES funding derives from national unemployment insurance and social security programs paid for by payroll taxes. BNDES is extremely sensitive to stewarding these funds, given the dire political and economic consequences it would face by mismanaging these key social safety nets. Finally, BNDES' export credit program is subject to a certain amount of domestic suspicion from those who question why the Brazilian government "gives" money to foreign buyers – particularly in other developing Latin American countries – when Brazil itself is in need of money. BNDES must demonstrate that its foreign lending has a positive effect on the Brazilian economy and is not a subsidy for other countries. Stemming from the need to carefully steward its financial resources, BNDES requires a bank guarantee or SBCE insurance cover on its loans to mitigate potential losses.

BNDES provides direct loans for both short-term pre-shipment (working capital) and medium- and long-term post-shipment transactions. Its post-shipment support includes both suppliers' and buyers' credits. In the last five years, total export credit support has comprised one-quarter to one-third of BNDES' overall activity. Medium- and long-term loans make up 50%-70% of BNDES' export credit volumes (by annual disbursement). Approximately 40% of its medium- and long-term support goes toward aircraft sales. Another major sector for BNDES is oil and gas equipment. Most of BNDES loans are for exports to other Latin American countries, largely because these are the main markets for Brazilian capital goods exports. On the other hand, most BNDES supported aircraft sales are to the U.S. market. BNDES is trying to expand its markets with a focus on China, Vietnam and Iran. In the past five years, BNDES has supported anywhere from 24% to 34% of Brazil's national exports, providing support to 250-300 exporters.

BNDES uses Libor as the base rate for its loans. It charges a 2% spread for its risk, and the guaranteeing bank will charge an additional spread. Additional commitment fees or other charges may also be added. BNDES generally tries to reference the Arrangement, although it will provide more flexible terms when necessary. BNDES will typically not offer more than 12-year repayment terms, and its average repayment term is eight years. However, it has provided up to 20-year repayment terms, including for exports to China's Three Gorges Dam. It will also provide 15-year terms for aircraft transactions. BNDES will finance 100% of an export transaction, rather than the OECD's required 85% maximum, although BNDES will not provide local costs support. When BNDES loans receive SBCE cover on behalf of the Brazilian government, SBCE will charge a premium in compliance with the Arrangement.

Figure F4: BNDES Activity 2000-2004 (in $mns)

BNDES	2000	2001	2002	2003	2004
Short-term	$1,303	$969	$1,278	$1,981	$1,921
M- & L-term	$1,779	$1,663	$2,669	$2,025	$1,940
TOTAL	$3,082	$2,602	$3,947	$4,006	$3,861

[Excludes domestic loans.]

Seguradora Brasileira de Crédito à Exportação (SBCE)

SBCE was created in 1997 to provide export credit insurance for Brazilian exporters. It is 24% owned by the Brazilian government (12% by Banco do Brasil and 12% by BNDES) and 27% owned by Coface, with the remaining shares held by private banks. Similar to Coface, SBCE provides medium- and long-term insurance on behalf of the government, and short-term insurance is provided on its own account. COFIG, the inter-ministerial committee, meets monthly to decide on all SBCE transactions over $5 million. SBCE's official export credits are backed by the Export Guarantee Fund (FGE), a Brazilian Treasury account.

SBCE works very closely with BNDES to provide official export credit support for Brazil's exports. BNDES, the state development bank, provides funding for transactions, while SBCE will provide credit risk insurance for the transaction, so rather than competing with one another they provide complementary roles in financing Brazilian exports. Approximately 98% of SBCE's medium- and long-term export credit insurance is provided to transactions where BNDES is the lender, with the remaining 2% insuring Banco do Brasil loans. In addition, BNDES holds half of the Brazilian governments shares in SBCE. The two agencies also collaborate in the management of the FGE, with SBCE responsible for risk monitoring and portfolio analysis and BNDES responsible for accounting.

SBCE's medium- and long-term insurance volumes have averaged approximately $600 million a year from 2001 to 2003. There was a dramatic surge in the transaction volume level in 2002; the increase was attributed solely to transactions for the United States. The United States was the destination for almost 70% of SBCE's insured transactions, most likely for aircraft sales. The rest of SBCE's activity went primarily to other Latin American and Caribbean countries.

SBCE indicates that it generally complies with Arrangement rules, with the exception of regional aircraft transactions where Canada's market window, EDC, is its biggest competitor.

Figure F5: SBCE Activity 2000-2004 (in $mns)

SBCE	2000	2001	2002	2003	2004*
Short-term	$208	$187	$1,381	$202	NA
M- & L-term	$ 0	$198	$1,336	$733	NA
TOTAL	$208	$385	$2,717	$935	NA

*2004 activity levels for SBCE are not yet available.

Competitiveness Impact

The Brazilian ECAs' support for Embraer aircraft is currently the main potential competitive threat to U.S. exporters (see Chapter 4A for more information). Exporters in other sectors have noted Brazil as a competitor, and this could increase as these ECAs expand their activity. Although the majority of the Brazilian ECAs export support goes to the U.S., Latin America is a market where U.S. exporters should expect to see competition from Brazilian companies. The sectors where this activity is likely to be concentrated in include transportation equipment (automobiles and rail) and telecommunications. As Brazil's economy matures and Brazilian companies become more engaged in manufacturing of capital equipment, competition may expand to other industry sectors like petrochemicals.

Figure F6: Total Brazilian Officially Supported Export Finance (in $mns)

Brazil	2000	2001	2002	2003	2004*
Short-term	$1,307	$973	$1,306	$1,985	NA
M- & L-term	$1,779	$1,667	$2,696	$2,040	NA
TOTAL	$3,086	$2,640	$4,001	$4,025	NA

*2004 activity levels are not shown because SBCE activity levels are not yet available.

BNDES may also pose competitive problems for Ex-Im Bank, and consequently U.S. exporters, as it functions as a market window. Market windows and their competitive implications are discussed in more depth in Chapter 5B of this report, in the context of EDC of Canada and KfW of Germany.

India

Overview

India's economic performance has been impressive since undertaking widespread economic reforms in the early 1990s. India has posted an average GDP growth rate of 6% since 1990, and achieved a robust 8% growth rate in 2003/2004. Led by large numbers of highly educated English-speaking people, software services alone are estimated to reach 7% of India's total GDP and 35% of India's total exports by 2008.

India's exports have grown from $45 billion in 2001 to over $60 billion in 2003, registering a 33% increase. Preliminary IMF 2004 data suggest total export volume will approach $80 billion in 2004. Major export sectors include engineering, gems and jewelry, auto components, pharmaceuticals and textiles. India's Foreign Trade Policy plan for 2004-2009 hopes to double India's share of world merchandise trade within five years. Included in the strategy are 220 export items and 25 markets that would receive special attention.

India has two export credit agencies: the Export Import Bank of India (India Eximbank), which provides loans and guarantees, and the Export Credit Guarantee Corporation of India (ECGC), which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions) while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions is unavailable.

Historically dissimilar roots also separate India Eximbank and ECGC. At its inception in 1957, ECGC's main function was to provide official export credit insurance. However, at that time India's trade policies focused on import finance rather than export finance. By the early 1980's, India realized that its import substitution policies were discouraging exports. As a result, trade policy shifted from import finance to export finance, and India Eximbank was established to implement India's export policy. India Eximbank became the central export funding institution while ECGC continued in its role as official export credit insurer.

Export Import Bank of India

Established by an Act of the Indian Parliament in 1981, India Eximbank is India's principal provider of trade finance and export promotion. Its goal is to finance, facilitate and promote India's international trade and investment. Although India Eximbank is a public sector institution, approximately 80% of its total resources are funded through the market on its own authority.

India Eximbank provides several products aimed at the pre-export production process as well as performance bonds and guarantees. In addition, India Eximbank offers post shipment direct loans and lines of credit. India Eximbank's target markets are Africa, Latin America and China.

Lines of credit appear to be a major vehicle for the provision of India Eximbank support. In 2004, India Eximbank extended 12 lines of credit worth $168 million to the governments of Ghana, Zambia, Sudan, Angola, as well as the Central Bank of Djibouti, Eximbank of Hungary, the West African Development Bank, and six Iranian banks. India Eximbank currently has 28 lines of credit worth $530 million available to 51 countries.

The 2000-2004 data for total India Eximbank lending activity (as presented from India Eximbank and shown in the table below) includes all lending and guarantee programs, of which approximately 60% represents export credit contracts and the remaining 40% is comprised of loans for building export competitiveness.

Based on 2004 data , short-term activity totaled $647 million and medium-and long-term activity totaled $2,173 million. Total Indian Eximbank activity has been steadily increasing. This trend reflects the growing importance of export promotion in India.

Figure F7: India Eximbank Activity 2000-2004 (in $mns)

India Eximbank	2000	2001	2002	2003	2004
Short-term	NA*	$79	$151	$259	$647
M- & L-term	NA*	$1,420	$1,481	$1,965	$2,173
TOTAL	NA*	$1,499	$1,632	$2,224	$2,820

* Data not available.

2004 data indicates that India Eximbank approved 164 export contracts amounting to $1.7 billion in 48 countries for 96 Indian exporters in 2004. By contract type, the deals were broken down as follows: 28 turnkey projects valued at $921 million; 11 construction contracts valued at $333 million; 114 supply contracts valued at $437 million and 11 consultancy contracts worth $33 million.

India Eximbank finances a wide range of sectors, including textiles (11%), petroleum and petrochemicals (10%), pharmaceuticals (10%), and "other categories" which includes engineering services, information technology services, financial services, hospitality services, auto components, consumer goods, gems and jewelry, etc. (31%). The remaining 38% is comprised of capital goods, telecommunication, chemicals, and metal.

India Eximbank will finance up to 90% of the contract value of the exports it supports. Eligible products are classified into two product groups. Group A includes capital equipment and may receive credit terms ranging from three to 11 years, although 3-5 year terms are most common. Group B is comprised of consumer durables and industrial items usually exported on a cash basis, with maximum credit terms of 2 years. When providing rupee loans, India Eximbank sets a fixed market-based interest rate, while it will provide foreign currency loans on a floating rate basis with a spread over Libor.

Export Credit Guarantee Corporation of India (ECGC)

Founded in 1957, ECGC operates under the administrative control of the Ministry of Commerce and Industry but like India Eximbank, it raises funds in the market. Its mission is "to support and strengthen the export promotion drive in India." Of note, the Ministry of Commerce and Industry is also the oversight body for concessionary financing.

To accomplish this broad mandate, ECGC offers a range of credit risk insurance products to exporters and financial institutions. Insurance cover is available for short, medium and long terms. ECGC also provides pre-shipment support, guarantees for commercial bank loans, and exchange rate fluctuation cover on a risk shared basis with the exporter for both pre and post shipment financing. In addition, ECGC provides foreign direct investment insurance. Banks financing exports, including India Eximbank, are eligible for ECGC cover. ECGC insurance covers approximately 11% of India's exports. ECGC is the only official trade insurance agency but may share coverage with private insurance companies for short-term insurance.

Of ECGC activity in 2004, short-term insurance (new business) totaled $7,811 million and medium- and long-term insurance totaled $288 million. Total ECGC activity has been generally uneven in three key regions since 2000. According to ECGC, this trend reflects periodic downturns in business investment attributable to sluggish African economies, the outbreak of SARS in Asia, and political uncertainty in Latin America.

Figure F8: ECGC Activity 2000-2004 (in $mns)

ECGC	2000	2001	2002	2003	2004
Short-term	$5,518	$5,055	$8,115	$6,062	$7,811
M- & L-term	$72	$174	$58	$131	$288
TOTAL	$5,590	$5,229	$8,173	$6,193	$8,099

ECGC coverage spans an array of sectors, including engineering (14%), chemicals (12%), leather (9%), textiles (7%) and "other categories" (40%). The remaining 18% includes sectors such as gems and jewelry, tea and handicrafts.

ECGC will provide 90% cover on insurance policies for commercial and political risks. The remaining 10% is borne by the exporter. ECGC reserves the right to offer a lower percentage of cover in certain cases. Premia vary depending on the payment terms, country risk classification, and type of risk covered (commercial, political, or a combination of the two). Based on the information available, ECGC will generally issue coverage for up to a one-year term, but terms may be extended for longer-term transactions.

Competitiveness Impact

The terms offered by the Indian ECAs appear to be generally consistent with the OECD Arrangement. Repayment terms of 3-11 years are more or less in line with OECD guidelines. Interest rates are market-oriented. As prescribed by the OECD Arrangement, Indian ECA premia are risk-differentiated. Indian ECAs generally observe the OECD guideline of charging a 15% cash payment, although they operate on a scale that ranges from 10% to 20% depending on the program.

Figure F9: Total Indian Officially Supported Export Finance (in $mns)*

India	2000	2001	2002	2003	2004**
Short-term	$5,518	$5,055	$8,115	$6,062	NA
M- & L-term	$793	$679	$ 941	$2,009	NA
TOTAL	$6,311	$5,734	$9,056	$8,071	NA

* This may overstate the total business done by India Eximbank and ECGC. This is due to the fact that ECGC insures a portion of India Eximbank's business. As mentioned above, the extent to which the two agencies work together is uncertain.
**2004 activity levels are not shown because ECGC activity levels are not yet available.

India's impressive growth has hinged on their ability to provide high-level services relatively inexpensively, be they in the engineering, telecommunications, software development, or financial services arenas. When this expertise is combined with their "loose" application of the Arrangement, the result may have competitive implications for U.S. service providers.

Appendix G: Foreign Content in Ex-Im Bank Supported Medium- and Long-Term Transactions in 2004*

Country	Product/Project	Export Value	Foreign Content Percentage**
Argentina	Engineering Services	$75,800,000	13%
Australia	Large Aircraft	$115,099,636	15%
Australia	Large Aircraft	$187,638,915	15%
Brazil	Printing Machinery & Equipment	$317,500	14%
Brazil	Small Aircraft	$7,545,240	11%
Brazil	Medical Equipment	$1,142,415	17%
Brazil	Medical Equipment	$1,271,000	15%
Brazil	Medical Equipment	$1,160,000	1%
Brazil	Paper Manufacturing Machinery	$2,647,765	1%
Brazil	Medical Equipment	$500,476	15%
Brazil	Medical Equipment	$1,369,888	15%
Brazil	Packaging Equipment	$817,375	2%
Brazil	Small Aircraft	$61,062,002	13%
Chile	Industrial Equipment	$730,906	15%
Chile	Industrial Equipment	$832,014	6%
China (Taiwan)	Large Aircraft	$341,200,000	5%
Colombia	Electronics	$38,450,000	37%
Colombia	Software	$13,661,202	15%
Costa Rica	Building Equipment	$1,219,900	10%
Dominican Republic	Transportation Equipment	$2,331,702	10%
Ecuador	Electrical Equipment	$38,100,000	10%
Egypt	Water Purification Equipment	$5,132,350	15%
Egypt	Turbine Generators	$74,301,900	12%
El Salvador	Medical Equipment	$1,090,771	10%
El Salvador	Industrial Equipment	$369,000	7%
India	Technology Equipment	$474,878,906	15%
India	Hospital Equipment	$448,843	15%
India	Industrial Equipment	$542,065	23%
Ireland	Large Aircraft	$448,000,000	15%
Ireland	Large Aircraft	$192,000,000	15%
Jordan	Fiber Optic Cable Equipment	$49,433,094	7%
Kazakhstan	Pumps	$149,489,285	2%
Kazakhstan	Transportation Equipment	$1,828,390	11%
Kazakhstan	Agricultural Equipment	$9,110,500	12%
Kazakhstan	Agricultural Equipment	$8,300,129	13%
Kazakhstan	Agricultural Equipment	$2,453,338	15%
Kazakhstan	Agricultural Equipment	$10,394,300	13%
Kazakhstan	Agricultural Equipment	$7,799,907	14%
Kazakhstan	Agricultural Equipment	$9,286,225	14%
Kazakhstan	Agricultural Equipment	$2,071,041	7%

Country	Product/Project	Export Value	Foreign Content Percentage**
Kazakhstan	Agricultural Equipment	$11,765,000	15%
Kenya	Large Aircraft	$121,830,000	14%
Korea	Large Aircraft	$131,000,000	14%
Luxembourg	Large Aircraft	$125,000,000	4%
Malaysia	Sub Reflectors	$173,400,000	15%
Mali	Fuel System Equipment	$3,676,716	15%
Mexico	Construction Equipment	$792,083	10%
Mexico	Agricultural Equipment	$305,355	12%
Mexico	Computer Equipment	$1,105,000	5%
Mexico	Aircraft Parts	$1,524,000	5%
Mexico	Radiators	$45,625,000	17%
Mexico	Industrial Equipment	$1,050,000	9%
Mexico	Engineering Services	$338,017,772	.3%
Mexico	Agricultural Equipment	$1,433,325	5%
Mexico	Oil and Gas Drilling Equipment	$225,161,835	.2%
Mexico	Scanning Services (Geophysical)	$225,266,331	4%
Mexico	Building Equipment	$471,000	2%
Mexico	Building Equipment	$1,477,636	11%
Mexico	Miscellaneous General Purpose Items	$996,346	16%
Mexico	Consulting Services	$1,351,175	36%
Netherlands	Large Aircraft	$120,213,316	15%
Nigeria	Computer Equipment	$11,225,280	2%
Nigeria	Trade Financing	$16,630,068	11%
Panama	Large Aircraft	$45,600,000	20%
Peru	Industrial Equipment	$574,000	15%
Peru	Industrial Equipment	$3,117,818	3%
Philippines	Refrigeration Equipment	$4,584,126	15%
Philippines	Printing Machinery & Equipment	$3,380,000	15%
Philippines	Textile Mills	$764,525	15%
Philippines	Agricultural Equipment	$467,665	14%
Romania	Industrial Equipment	$164,400,000	9%
Romania	Switches	$43,540,564	13%
Romania	Hydrological Sensors	$36,415,340	3%
Russia	Agricultural Equipment	$670,000	11%
Russia	Industrial Equipment	$25,000,000	12%
Russia	Transportation Equipment	$1,966,713	12%
Russia	Transportation Equipment	$1,443,615	11%
Russia	Agricultural Equipment	$2,036,589	13%
Russia	Mining Project	$5,467,573	1%
Russia	Agricultural Equipment	$6,271,650	10%
Russia	Agricultural Equipment	$10,000,000	13%
Russia	Agricultural Equipment	$1,711,733	10%
Russia	Oil and Gas Drilling Equipment	$3,450,000	3%
Singapore	Measuring Equipment	$757,478,114	13%
Thailand	Large Aircraft	$285,454,792	5%

Country	Product/Project	Export Value	Foreign Content Percentage**
Trinidad & Tobago	Television Equipment	$5,530,987	19%
Turkey	Ancillary Services	$18,830,294	15%
Turkey	Heating Equipment	$47,977,690	13%
Turkey	Turbines	$11,883,100	19%
Turkey	Banking Services	$39,763,589	18%
Turkey	Transportation Equipment	$77,451,064	4%
Ukraine	Agricultural Equipment	$7,000,000	10%
United Arab Emirates	Large Aircraft	$153,000,000	17%
Various countries	Large Aircraft	$1,919,142,601	14%
Vietnam	Large Aircraft	$237,578,487	15%
TOTAL		$7,821,097,847	12%

*Preliminary data, excludes Credit Guarantee Facilities
**When eligible foreign content exceeds 15%, the buyer is required to make a minimum cash payment equal to the amount of foreign content.

Appendix H: Tied Aid Report

Introduction

This appendix sets forth the annual report on tied aid credits, required by Sections 10(G) and 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended. This appendix first addresses the implementation of the OECD Arrangement rules on tied aid (also known as the Helsinki Package) during 2004, followed by a discussion of trends in the use of the TACPF through 2004. Finally, it addresses other actions and plans to combat predatory financing practices.

Implementation of the OECD Arrangement

This section describes the implementation of the Arrangement rules related to tied aid, the current status of the OECD negotiations on tied and untied aid, and the outcome of No Aid Common Lines and Consultations Group activity.

Tied aid is concessional financing support provided by donor governments in the form of a grant or a "soft" loan for which capital goods procurement by developing countries is contractually linked to procurement from firms located in (or in some way benefiting the economy of) the donor country (see below for "**Definitions of the Various Types of Aid**").

In 1991, the Participants to the Arrangement agreed to OECD rules governing the use of tied aid (Helsinki Package) aimed at reducing the use of concessional financing for projects that should generate sufficient cash flows that would support the use of commercial – rather than concessional -- financing. The rules went into effect in 1992 and the data trends reported in Chapter 5 evidence the notable decreased use of tied aid since that time. The Helsinki Package established: 1) country and project eligibility requirements for the provision of tied aid; 2) rules requiring notification of tied aid offers; and 3) mechanisms for consulting on (and in some cases challenging whether) tied aid offers conform to established guidelines. The Helsinki rules on country and project eligibility basically resulted in two disciplines to restrict the use of tied aid: 1) no tied aid in "rich"[1] countries; and 2) no tied aid for "commercially viable" (CV) projects. In addition, since the mid-1980s, the Arrangement has required that tied aid contain a minimum concessionality level of 35% as measured with a market-based discount rate[2].

Definitions of the Various Types of Aid

When considering the various forms of aid, it is important to differentiate between bilateral aid to be used at the discretion of the buyer; trade-related aid that involves procurement of capital equipment,

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[1] Gross National Income (GNI) above $3,035 per annum (based on 2003 data)

[2] The term "concessionality" refers to the total value of the subsidy being provided by the donor to the recipient country for any one project or purchase. For example, if a country receives a grant of $100 million for a $100 million project, the concessionality level of this aid would be 100%, whereas a grant of $35 million combined with a traditional export credit for the remaining $65 million would have a concessionality level of 35%.

and trade-distorting aid, which is aid provided with the intent to favor procurement from the donor's country. Specific definitions of the various forms of aid follow:

Official Development Assistance (ODA), or aid, is concessional financial support of which at least 25% is intended to carry no repayment obligations (i.e., contains 25% concessionality or grant element),[3] and the vast majority of it is 100% pure grant. Aid from a donor government to a recipient developing country government normally supports either "general" uses (e.g., balance of payments support) or the purchase of specific goods and/or services (local, donor country and/or third country) necessary for the completion of an investment or specific project. The latter, with the exception of some local purchases, is trade-related aid.

Trade-related aid may be either "tied" or "untied" to procurement from the donor country and can be provided in two forms: grants[4] or credits. However, because grants do not involve significant repayment obligations (i.e., no export leverage), they are viewed as having a very small potential for trade distortions (see below) and are not subject to OECD disciplines other than notification.

Tied aid credits refer to financing that is trade-related and contractually conditioned upon the purchase of some or all of the goods and/or services from suppliers in the donor country or a limited number of countries. This type of aid falls within the OECD Arrangement rules. Such aid credits may only be provided to eligible countries and for eligible (commercially non-viable) projects. Also, using the Arrangement's rigorous financial measurement methodology, tied aid to developing countries must be at least 35% concessional, and tied aid to least developed countries must be at least 50% concessional.

Untied aid credits refer to financing that is **not** contractually conditioned upon the purchase of goods and/or services from any particular country. This form of aid has historically fallen under the purview of the OECD Development Assistance Committee (DAC) rules, which differ from the OECD Arrangement rules in that the DAC provides virtually no restrictions on untied aid use. However, the Helsinki Agreement/Package included some basic transparency requirements for untied aid. Therefore, there is a wide gap in multilateral requirements between these two differing forms of aid credits. The resulting ambiguity has often been used to advantage by foreign untied aid donors.[5]

Trade-distorting aid refers to aid credits for which the motivation is largely (or significantly) connected to promoting the sale of goods from the donor government's country. Because tied aid credits by their nature can be trade distorting, strict OECD rules discipline their use. For example, it would be considered trade distorting to provide tied aid credits for projects that can service *commercial* term financing, including standard export credit financing (i.e., CV projects). As a result, the Arrangement prohibits tied aid credits for such projects (unless located in an LDC, or unless the concessionality level is 80% or greater). The Arrangement also prohibits tied aid to countries with a per capita income level above $3,035 (again, unless the concessionality level is 80% or greater),

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[3] The technique for measuring concessionality (grant element) of ODA is antiquated and results in one half of annual ODA levels having a concessionality level below 25%, and some substantially less.

[4] Credits with a concessionality level of 80% or more are viewed as grants and are not considered trade distorting.

[5] DAC rules were developed decades ago. The nominal level of grant element that qualifies as Official Development Assistance (ODA) must be 25%. However, current DAC methodology allows the real level of concessionality to be much lower than 25% (e.g., untied aid credits have been notified with as low as 6% real concessionality and theoretically could provide only 4% real concessionality). The United States has been seeking agreement to update the methodology.

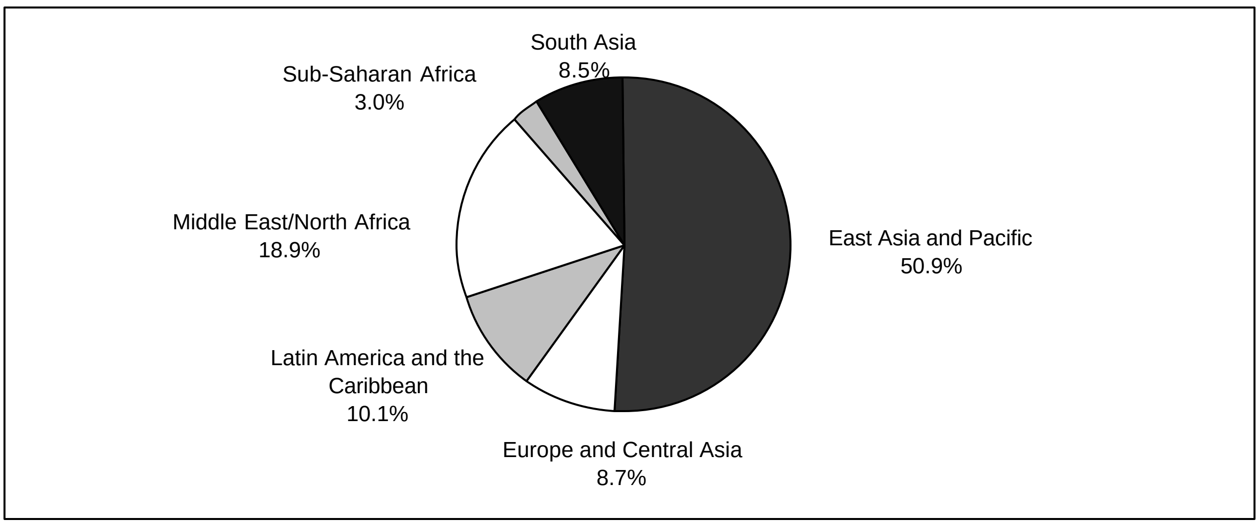
because they are considered to have ready access to market financing and official export credits for all types of projects.

Current Status of the OECD Negotiation on Tied and Untied Aid

The OECD continues to monitor the effectiveness of the tied aid rules that came into effect in 1992. In 2004, the data shows the continued low levels of tied aid and its use for projects unable to support commercial or ECA financing terms. The OECD has concluded that the tied aid rules continue to redirect tied aid to countries and sectors that are properly considered development assistance.

With respect to untied aid, the OECD continued to consider whether it would adopt any rules to govern its use. By definition, untied aid should not be trade-distorting because it should be equally accessible to exporters from all countries. However, through influence exerted indirectly (e.g., through lack of transparency, special procedures, required designs and specifications, promises of additional aid, political pressures, gratitude shown by the recipient, lack of multilateral accountability, etc.), untied aid can become effectively tied while it nominally escapes the Arrangement rules for tied aid. All such aid that is effectively tied must be considered trade distorting.

Figure H1: Tied Aid Notifications by Region



No OECD Arrangement rules currently discipline the use of untied aid, and even the requirement for transparency was limited to confidential notification (i.e., notification to other OECD Members, but not to the public). U.S. proposals to establish a comprehensive set of rules to discipline untied aid have not been agreed. However, in 2004 the United States advanced an agreement to enhance ex ante transparency of untied aid offers and the results by nationality of bid awards. That is, untied aid donors will make their prospective offers public to allow for competitive international bidding, and to report the nationalities of bid winners to verify competitive outcomes. The transparency agreement will allow OECD Members to: (1) access information that will help all exporters (not just exporters from donor countries) compete for sales financed with foreign untied aid; and (2) compile any evidence of de facto tying of “untied” aid to procurement from the donor country. The transparency agreement began implementation on January 1, 2005. As a result, U.S. exporters are in a better position to bid on projects financed with foreign untied aid, and donors will be under pressure to demonstrate competitive results and therefore avoid unfair bid awards.

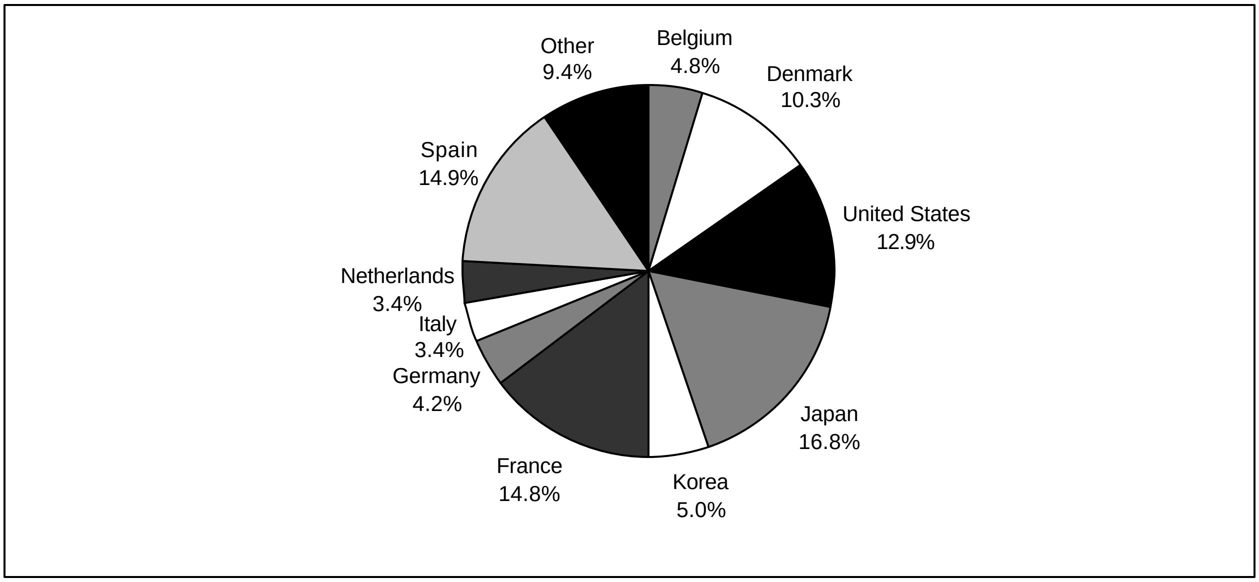
Tied Aid Eligible Markets

In addition to establishing limits to tied aid for commercially viable projects, the OECD rules and subsequent negotiations designated a number of key markets as no longer eligible for tied aid financing. Specifically, the Helsinki rules ban tied aid into high or upper middle-income markets, as defined by the World Bank. Another OECD agreement bans tied aid into Eastern Europe and select countries of the former Soviet Union, unless the transaction involves outright grants, food aid or humanitarian aid. See **Annex 1** for a list of key markets for which tied aid is prohibited and **Annex 2** for a list of key markets eligible for Ex-Im Bank tied aid support.

Figure H1 shows the distribution of tied aid offers by region in terms of volume. In 2004, the major beneficiary region was Asia, as it includes the most significant recipient – which this year was Vietnam ($548 million). China, which has for years been the top tied aid recipient, in 2004 trailed far behind other Asian markets, attracting about two-thirds of the tied aid available to Vietnam or $368 million. Another significant Asian market that attracted tied aid was Indonesia ($786 million). The sub-Saharan Africa region continued to receive relatively low levels of tied aid, which in 2004 amounted to about $108 million or 3% of global tied aid. The remaining regions registered a less significant and more disparate distribution of tied aid.

Figure H2 shows the variety of donor countries that offered tied aid in 2004. Japan surpassed Spain and France by a notable margin as the largest tied aid donor. Japan notified almost $1 billion in tied aid offers in 2004, compared to France and Spain who notified about $800 million each. The United States followed close behind, notifying $700 million in tied aid. USAID and TDA accounted for the $700 million in OECD notifications, all of which were 100% concessional and largely for small, developmentally focused projects in sectors considered to be commercially unattractive (and, therefore, consistent with the OECD rules.)

Figure H2: Tied Aid Notifications by Donor Country



As far as sector concentration, during 2004 tied aid business continued to evidence an overall shift away from sectors generally considered to be commercially attractive – like energy and industry. In 2004, tied aid activity was concentrated primarily in the transport and storage sectors (principally rail and water transport), and water and health sectors (all of which tend to be considered commercially non-viable).

Tied Aid Eligible Projects

The Helsinki Package established the principle that tied aid should not be used for commercially viable (CV) projects, defined as revenue-generating projects adequate to service ECA financing and for which ECA financing is available:

- Generate operating cash flows sufficient to repay debt obligations on standard OECD Arrangement export credit terms (referred to as "financially viable (FV)"); and,
- Could potentially attract standard export credit financing (at least two OECD export credit agencies would be prepared to provide export credit) which, combined with FV determination, leads to a CV conclusion.

The OECD Consultations Group examines projects that have been notified by a Participant as eligible for tied aid that another Participant may consider ineligible for tied aid because it appears to be CV. Sovereign guarantees from the buyer do not factor into the determination of "commercial viability". The results of the Consultations Group decisions are compiled in "Ex-Ante Guidance", which serves as a guide to exporters and ECAs regarding possible commercial viability of particular projects by sector [6]. As **Chart H3** illustrates, the Consultations Group has not examined many

[6] In December 2003, the OECD countries agreed to update the *Ex Ante Guidance for Tied Aid*, a set of guidelines which assists export credit agencies, aid agencies, project planners and aid recipients in judging at the outset whether potential projects will be eligible for tied aid. These guidelines, designed to avoid the use of official aid for exports that could

projects in recent years. In 2004, for the first time the Consultations Group did not examine any projects notified by Members as eligible for tied aid, reflecting the general view that foreign tied aid programs were operating within the agreed tied aid rules.

Of the 131 projects examined by the Consultations Group from March 1992 to December 2004, 70 projects (53.4%) were found to be CV or ineligible for tied aid. The remaining cases were found eligible for tied aid and no follow up was subsequently done. Of the 70 projects deemed ineligible for tied aid, 43 projects proceeded with other financing sources, including, tied and untied aid, commercial financing, and standard export credits. See **Annex 3** for a list of projects generally considered CV, for which tied aid is prohibited. See **Annex 4** for a list of projects generally considered commercially non-viable, for which tied aid is permitted.

Figure H3: Notifications of Helsinki Tied Aid and Consultations Group Examinations

Year	Number of Notifications	Number of Projects Examined by the Consultations Group	Number of Non-compliant Projects
1992	128	39	16
1993	138	25	12
1994	262	31	21
1995	226	14	4
1996	212	4	3
1997	195	2	2
1998	191	5	5
1999	213	2	1
2000	181	4	4
2001	123	2	1
2002	136	1	0
2003	128	2	1
2004	**145**	**0**	**0**
Totals	2,278	131	70*

*Of the 70 "non-compliant" cases (i.e., cases deemed commercially viable by the OECD Consultations Group), 19 were abandoned and 33 proceeded within Arrangement procedures or on commercial terms. The disposition of several cases is presently unknown.

Trends in the Use of the TACPF

Ex-Im Bank in consultation with Treasury has established guidelines for the use of the TACPF. These guidelines have two core components:

1. A series of multilateral and/or domestic steps (e.g., no-aid agreements, preliminary offer of matching, actual offer of matching) that attempt to get competitors to drop

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proceed without aid, encapsulate the body of experience of the Consultations Group and have been a useful tool.

consideration of tied aid use and/or let tied aid offers expire for projects of interest to U.S. exporters.

2. A set of “multiplier” criteria (e.g., prospect of future sales without the need for tied aid) that attempt to limit tied aid support to those transactions with a benefit that would extend beyond the individual tied aid offer and generate the most benefit to the U.S. economy.

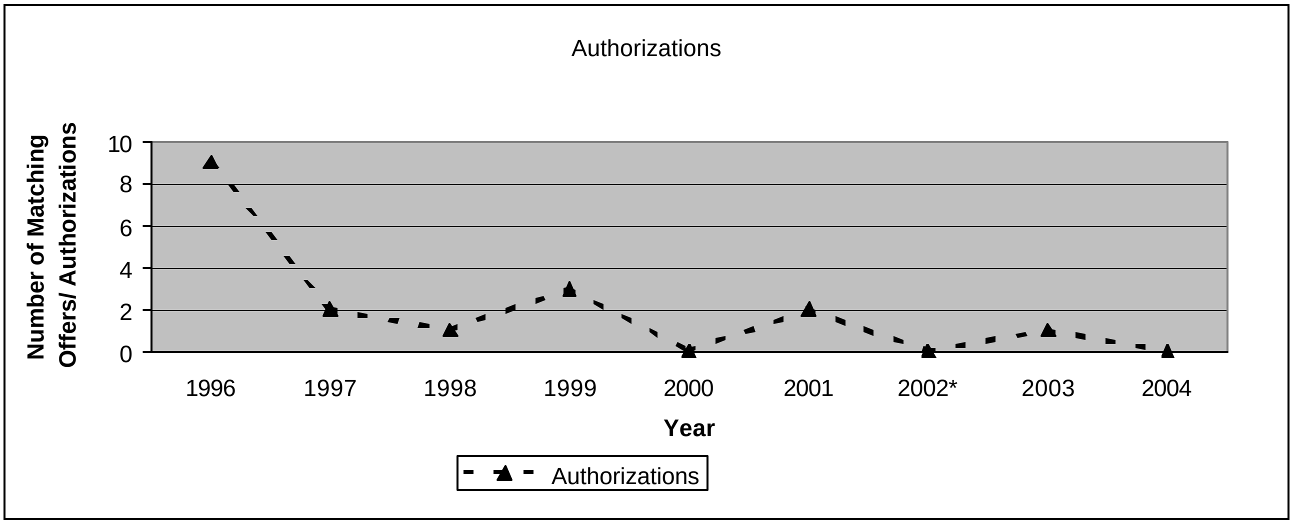
Although in the past Ex-Im Bank matching policy achieved some limited success in deterring foreign tied aid offers as part of the overall U.S. tied aid strategy, in recent years Ex-Im Bank has been faced with fewer opportunities to match due to record low levels of tied aid. From 1994 through 2004, of the 26 cases in which Ex-Im Bank tried to discourage tied aid use by issuing a “willingness-to-match” indication, seven saw the competing tied aid offer withdrawn; U.S. exporters won five out of seven cases on standard Arrangement terms. Nine cases have been lost to foreign tied aid financing, while ten remain outstanding or have been indefinitely delayed. Notably, however, most matching success occurred in the years immediately following the Helsinki Package when the lines between commercial and aid financing were being drawn. By the end of 1996, 30 matching offers had been made, and seven had been withdrawn. As shown in **Figure H4**, of the 44 cases where Ex-Im Bank matched, the United States has won 19 while losing 24. One case has been indefinitely delayed while another remains outstanding. In 2004, Ex-Im Bank did not issue any new tied aid commitments.

Figure H4: Cumulative Ex-Im Bank Matching of Previously Notified Foreign Tied Aid Offers

	1997	1998	1999	2000	2001	2002	2003	2004
New matching offers during year	4	2	4	1	2	0	1	0
U.S. win	12	13	16	17	19	19	19	19
U.S. loss	10	10	21	23	23	23	24	24
Outstanding, no decision	12	13	3	1	1	1	1	1
Cumulative total	34	36	40	41	43	43	44	44

As shown in **Figures H4 and H5**, the pace of Ex-Im Bank tied aid matching activity has slowed dramatically in recent years with the number of tied aid authorizations showing a similar downward trend and no authorizations in 2004. This tracks with a sharp increase in compliance with the tied aid rules as evidenced by a reduction in the annual average number of tied aid consultations, from 23 per year over 1992-1996 to fewer than 3 per year over 1997-2003 and none in 2004.

Figure H5: U.S. Tied Aid Authorizations by Year



Ex-Im Bank Initiated No Aid Common Lines

Since April 1994, there have been 26 cases where the OECD Secretariat, acting upon Ex-Im Bank's request, has obtained OECD-wide approval of "no aid" agreements for particular projects of interest to U.S. exporters that could otherwise receive tied aid under the OECD rules. With such agreements in place, U.S. exporters can compete without fear of tied aid competition and without the need for Ex-Im Bank to provide a matching tied aid offer. When Ex-Im Bank receives an application for financing in a tied aid eligible country for a project that is commercially non-viable, and the U.S. exporter has reason to be concerned about the possibility of tied aid financing competition, Ex-Im Bank may propose a no aid common line in hopes of eliminating this possibility. If the common line request is accepted, other OECD member countries agree not to offer tied aid financing for the particular project for a period of two years (with the possibility of extensions). If the no aid common line request is rejected, other OECD member countries may make a tied aid financing offer for the project. **Figure H6** shows the results of the no aid common line requests initiated by Ex-Im Bank from 1996 through 2004.

Figure H6: U.S. Proposed No Aid Common Lines

	1997	1998	1999	2000	2001	2002	2003	2004
Proposed	24	5	13	8	1	0	3	2
Rejected	17	5	12	5	0	0	1	1
Accepted	7	0	1	3	1	0	2*	1*

The "no aid common lines" have had limited utility for U.S. exporters in the past few years because any U.S. initiation of such lines tend to be rejected out of hand by foreign governments (who consider this action an inappropriate restriction on their flexibility/competence to provide aid within the Helsinki Agreement/Package). Moreover, U.S. exporters recoil from the “no aid” common line requests when they believe that the buyer will “penalize” the U.S. supplier for their role in seeking to limit concessional funds available to foreign buyers.

Nevertheless, in 2004 the U.S. proposed two common lines. One common line for agriculture exports to China was accepted. However, good faith confusion regarding the exact equipment and the locations to receive the equipment resulted in the foreign ECA offering tied for a portion of the project because it did not believe that its equipment was the subject of the common line. Consequently, the foreign firm won that portion of the project. Another common line was for wind turbines to the Dominican Republic. The common line was rejected by two OECD Members who actively provide tied aid for wind technology. One of the Members rejecting the “no aid” common line subsequently notified its intention to provide aid for the wind turbines. However, due to credit concerns arising during the processing of the OECD common line, the US was unable to proceed with the transaction on standard or concessional terms.

Responding to U.S. exporters' demands for a U.S. Government response to foreign governments’ use of concessional financing for development-related capital projects, in 2002 the TPCC introduced a USG mixed credit concept. The idea is, to combine USAID grants with Ex-Im Bank standard export credit financing for development-related projects that are identified as priorities by USAID and consistent with the OECD tied aid rules. (When combined, the two funding sources create a tied aid credit.) USAID and Ex-Im Bank have identified an inaugural project to test the mixed credit concept, but it has been put on hold due to shifting priorities resulting from USG efforts to respond to the tsunami disaster in Asia.

Appendix H Annex 1

Key Markets Where Tied Aid is Prohibited	
Americas*	Argentina, Mexico, Venezuela
Asia*	Hong Kong, Korea, Malaysia, Singapore; Taiwan
Middle East*	Bahrain, Israel, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates
Africa*	Botswana, Gabon,
Eastern Europe	Czech Republic, Hungary, Poland, Slovakia; Belarus**, Bulgaria**, Latvia, Lithuania, Romania**, Russian Federation**, and Ukraine**.

*These markets are not eligible for tied aid as a result of the fact that their Gross National Income (GNI) per capita was sufficient to make them ineligible for 17-year loans from the World Bank for at least two consecutive years (using 2003 data, those countries with a GNI per capita above U.S.$3,035).

**These markets are covered by a Participants' agreement to try to avoid tied aid credits other than outright grants, food aid and humanitarian aid, known as the "soft ban". The decommissioning of nuclear power plants for emergency or safety reasons, or due to serious cross-border pollution caused by a major industrial accident, can be regarded as humanitarian aid. Such projects would be eligible for tied aid in these markets despite the soft ban.

Appendix H Annex 2

Key Tied Aid Eligible Markets	
Asia	China, India, Philippines, Thailand, Vietnam
Americas	Colombia, Ecuador; El Salvador; Guatemala; Paraguay; Peru
Africa	South Africa; Egypt, Namibia
Middle East	Jordan; Turkey

Note: In addition to OECD tied aid eligibility, additional U.S. Government criteria are applied to transactions to determine whether tied aid can be made available (e.g., follow on sales criteria and "dynamic market" evaluation).

Appendix H Annex 3

Projects Generally Considered Commercially Viable (Helsinki-Type Tied Aid Prohibited)	
Power	▪ Oil-fired power plants ▪ Gas-fired power plants ▪ Large hydropower plants ▪ Retrofit pollution-control devices for power plants ▪ Substations in urban or high-density areas ▪ Transmission and/or distribution lines in urban or high-density areas
Energy Pipelines	▪ Gas transportation and distribution pipelines ▪ Gas & oil transportation pipelines
Telecommunications	▪ Equipment serving intra and interurban or long-distance communications ▪ Telephone lines serving intra and interurban or long-distance communications ▪ Switching equipment serving urban or high-density areas ▪ Radio-communications equipment serving urban or high-density areas
Transportation	▪ Freight railroad operations (locomotives, cars, signaling)
Manufacturing	▪ Manufacturing operations intended to be profit-making ▪ Privately-owned manufacturing operations ▪ Manufacturing operations with export markets ▪ Manufacturing operations with large, country wide markets

Appendix H Annex 4

Projects Generally Considered Commercially Non-Viable (Helsinki-Type Tied Aid Permitted)	
Power	▪ Power projects that are isolated from the power grid ▪ Distribution lines to low-density, rural areas ▪ Some transmission lines to low-density, rural areas ▪ District heating systems ▪ Renewable energy (e.g., geothermal power plants; small wind turbine farms; small hydropower plants connected with irrigation)
Telecommunications	▪ Telephone switching equipment serving low-density, rural areas ▪ Switching equipment serving low-density, rural areas ▪ Radio-communications equipment serving low density, rural areas
Transportation	▪ Road and bridge construction ▪ Airport terminal and runway construction ▪ Passenger railroad operations (locomotives, cars, signaling) ▪ Urban rail and metro systems
Manufacturing	▪ Highly-localized, small scale cooperatives ▪ Highly-localized, small scale food processing ▪ Highly-localized, small scale construction supply
Social Services	▪ Sewage and sanitation ▪ Water treatment facilities ▪ Firefighting vehicles ▪ Equipment used for public safety ▪ Housing supply ▪ School supply ▪ Hospital and clinic supply

Appendix I: Human Rights and Other Foreign Policy Considerations

The Export-Import Bank Act of 1945 was amended in 1978 by legislation referred to as the "Chafee Amendment," P.L. 95-630, 92 Stat. 3724. The Chafee Amendment, as amended in 2002 by P.L. 107-189, states "Only in cases where the President, … determines that such action would be in the national interest where such action would clearly and importantly advance United States policy in such areas as international terrorism (including, when relevant, a foreign nation's lack of cooperation in efforts to eradicate terrorism), nuclear proliferation, the enforcement of the Foreign Corrupt Practices Act of 1977, the Arms Export Control Act, the International Emergency Economic Powers Act, or the Export Administration Act of 1979, environmental protection and human rights (such as are provided in the Universal Declaration of Human Rights adopted by the United Nations General Assembly on December 10, 1948) (including child labor), should the Export-Import Bank deny applications for credit for nonfinancial or noncommercial considerations." 12 U.S.C. § 635(b)(1)(B).

It should also be noted that, pursuant to Executive Order 12166, the President has delegated his authority to make Chafee determinations to the Secretary of State, who must consult with the Secretary of Commerce and the heads of other interested Executive agencies.

Ex-Im Bank has developed procedures with the State Department, including the Bureau for Democracy, Human Rights, and Labor, for regular consultation regarding human rights concerns. According to these procedures, Ex-Im Bank periodically receives a list of countries where the State Department has found no "consistent pattern of gross violations of internationally recognized human rights." Where a proposed transaction over $10 million dollars involves goods or services to be exported to a country that has not received "pre-clearance" on such list, Ex-Im Bank refers the transaction to the State Department for human rights review. In addition, Ex-Im Bank country economists may work in concert with the State Department to, where appropriate, examine human rights and other foreign policy considerations in their assessment of the risks associated with transactions in specific countries.

Various other statutory provisions implicating human rights and other foreign policy concerns may also impact Ex-Im Bank programs. For example, with respect to Ex-Im Bank's approval of support for the sale of defense articles or services for anti-narcotics purposes, Ex-Im Bank may approve such a transaction only following satisfaction of a number of statutory criteria, one of which is that the President must have determined, after consultation with the Assistant Secretary of State for Democracy, Human Rights and Labor, that the "the purchasing country has complied with all restrictions imposed by the United States on the end use of any defense articles or services for which a guarantee or insurance was [previously] provided, and has not used any such defense articles or services to engage in a consistent pattern of gross violations of internationally recognized human rights." 12 U.S.C. § 635(b)(6)(D)(i)(II).

Appendix J: Equal Access for U.S. Insurance

Pursuant to the Export Enhancement Act of 1992, Ex-Im Bank is required to report in the annual *Competitiveness Report* those long-term transactions approved by Ex-Im Bank for which an opportunity to compete was not available to U.S. insurance companies.

At the time the legislation was enacted, Ex-Im Bank had neither encountered nor been informed about any long-term transaction for which equal access for U.S. insurance companies was not afforded. Consequently, Ex-Im Bank, the Department of Commerce and the Office of the United States Trade Representative agreed that the establishment of a formal reporting mechanism was not necessary. It was also agreed that should Ex-Im Bank identify any long-term transaction in which U.S. insurance companies are not allowed equal access, a more formalized procedure would be created. As of December 2004, Ex-Im Bank has not identified any long-term transaction in which U.S. insurance companies were not allowed equal access.

Appendix K: Trade Promotion Coordinating Committee (TPCC)

Introduction

The Trade Promotion Coordinating Committee (TPCC) is an interagency committee that is comprised of 19 U.S. government agencies.[10] Each TPCC agency plays a key role in advancing the Administration's goal of maximizing U.S. export potential. The Export Enhancement Act of 1992 established the TPCC to coordinate U.S. government export promotion initiatives under the leadership of the Secretary of Commerce. The President and Chairman of the Export-Import Bank serves as the Vice-Chair of the TPCC.

Among the responsibilities of the TPCC is to prepare and submit to Congress an annual report entitled the National Export Strategy (NES) that outlines the Administration's trade promotion agenda. The TPCC issued its most recent NES report to Congress in May 2005 that lays out focused commercial strategies to help small businesses take advantage of opportunities in China and free trade agreement (FTA) countries, as well as six commercially significant markets. TPCC accomplishments during 2004 that pertain to Ex-Im Bank are summarized below.

Highlights of TPCC Accomplishments During 2004

Highlights of the TPCC's major accomplishments during 2004 that directly impact Ex-Im Bank and its competitive position vis-à-vis foreign export credit agencies include:

- Ex-Im Bank and Small Business Administration (SBA) signed and implemented the Co-Guarantee Agreement that will build on previous efforts to harmonize the export working capital loan programs of both agencies. This approach will provide the exporter with more easily accessible trade finance and the lender with combined SBA and Ex-Im Bank coverage without having to deal with two separate agencies. Since the agreement was implemented in August 2004, small business exporters from Ohio, Wisconsin, Florida and Michigan have benefited from the joint program. Additional co-guarantee loans are in process in other states, indicating increasing awareness and utility of the program.

- Ex-Im Bank, along with SBA, the U.S. Department of Commerce's Census Bureau and the International Trade Administration, and the U.S. Department of Agriculture have continued their joint marketing efforts. Specifically, this initiative includes the production of literature on U.S. government trade promotion programs that is disseminated at major domestic trade shows, trade financing seminars and direct mail

[10] Members of the TPCC are the following U.S. government agencies: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor, the Overseas Private Investment Corporation, Ex-Im Bank, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Economic Council and the Office of Management and Budget.

campaigns, as well as continued support for the U.S. Export Pavilion across the U.S. This marketing effort provides the U.S. export community with information and knowledge on how to effectively use U.S. government programs to boost U.S. export potential.

- Through the interagency coordination process provided by the U.S. Department of Commerce's Advocacy Center, Ex-Im Bank is able to more broadly educate the exporting community and foreign buyers regarding its programs, especially the project finance program. In addition, Ex-Im continues to create increased opportunities for U.S. exporters by marketing the availability of Ex-Im Bank financing to foreign buyers during the developmental phase of projects. Specific aims are to: (1) identify nascent U.S. export opportunities and, where appropriate, encourage foreign buyers to source goods and services from U.S. suppliers; (2) demonstrate USG financing support for these U.S. export opportunities at the initial developmental stage of the project; and (3) assist the company to enhance its proposal.

- Continuing the cross-training program in which TPCC agencies train their staffs on a host of U.S. government trade promotion programs. The objective is to prepare the next generation of international trade officers to accurately gauge their customer's real needs and export objectives and to package and seamlessly deliver an effective, customized solution integrating a multitude of different services from the TPCC Agencies. Over the last two years, roughly 200 trade staff were provided the training.

Appendix L: Efforts to Promote Renewable Energy Exports

In Ex-Im Bank's 2002 reauthorization process, Congress added to Ex-Im Bank's Charter the requirement to report on efforts to promote renewable energy exports.

During 2004, Ex-Im Bank staff participated in a number of outreach and marketing events intended to promote renewable energy exports. Participation in these events involved organizing panels, making presentations, meeting with individual exporters and meeting potential buyers. These events included:

1. The American Wind Energy Association's "Global Windpower 2004 Conference" in Chicago, IL, in March 2004 at which Ex-Im Bank participated as both a presenter ("Financing International Wind Energy Projects: The Experience of Ex-Im Bank") and as a panelist.
2. Organizing a panel for the Council of Energy Resource Tribes on expanding and financing renewable energy exports in Denver, CO, in May 2004.
3. Organizing a panel on "Financing Solar Energy Projects" for the American Solar Energy Society in July 2004 in Portland, OR.
4. Participating as a presenter and panelist at the World Renewable Energy Congress, in cooperation with the National Renewable Energy Laboratory, in Denver, CO, in August 2004.

In addition, Ex-Im Bank formed an inter-divisional Environmental Exports Team, under Director Linda Conlin's leadership, whose purpose includes the promotion of renewable energy exports. Ex-Im Bank staff engaged in efforts to explore policy and technical issues related to supporting renewable energy exports, including the following:

1. Participating in an export credit panel at a Sustainable Energy Finance Initiative conference in Bonn, Germany in June 2004.
2. Participating in a September 2004 meeting in Rome sponsored by the United Nations Environment Program that explored ECA financing of renewable energy exports and projects. The meeting included officials from other ECAs and renewable energy project sponsors.
3. With the U.S. delegation, engaging in negotiations at the OECD to extend longer repayment terms to renewable energy exports. [Note: Effective July 1, 2005, OECD rules will allow Ex-Im Bank and other ECAs to offer 15-year repayment terms to eligible renewable energy projects.]